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Nation's Business®

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MANAGING YOUR BUSINESS

Hundreds of thousands of American companies—like Mark Peterson's Santa Ana, Calif., firm, Marko Foam Products—sell goods and services to corporate immigrants. Hitachi

Consumer Products of America in Anaheim, Calif., buys some of its materials from Marko. (Page 12)



PHOTO: JIM WENDENHALL

12 Cover Story: Corporate Immigrants

In the tradition of the historic immigration of individuals to this country, foreign companies are coming in search of economic opportunity, but they also are making major and immediate contributions.

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Artificial intelligence technology may be able to make experts of us all or help us utilize the knowledge of a valued employee who has retired.

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Tax reform has taken away some shelters, and experts expect investors to pay more attention to income generation.

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A new round of paper work for businesses as they try to comply with the immigration law.

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Business and government leaders from Japan and the United States agree that reform of the international trading system is essential.

50 Building On Failure

Special 75th Anniversary Report: Entrepreneurs throughout our history have often succeeded spectacularly after first tasting failure.

61 The Johnny Appleseed Of Innovation

Nurturing the seeds of invention is the life mission of Eugene M. Lang.

DEPARTMENTS

His search for a place to launch a chili business led Barry Wax to develop Kitchen Privileges in Alexandria, Va. (Page 47)



PHOTO: T. MICHAEL KEZA

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The Real Drama's In Business

By Henry Altman

It was one of those serene suburban streets where elegant homes stand far enough apart—and people are standoffish enough—that a murder can take place without the neighbors suspecting anything for days.

A man who lived alone had been killed. Police, after learning of the crime, had no idea who had done it. Their only clue was that the victim's car was missing. They could find no trace of it.

A young newspaper reporter then, I set out to succeed where they had failed. I went to the front door of the murder house, walked back to my car and said to myself: You have just committed the murder. This is your victim's car. Where are you going to ditch it?

I spent a couple of days roaming dozens of miles in suburbia and exurbia, frequently getting royally lost.

Meanwhile, police were watching license plates. Hundreds of miles away, officers found the victim's car—and a suspect driving it.

Not to worry, I told myself. There would be other times. This was the stuff television drama was made of, and to be involved in it in real life was really something. Wasn't I glad I had chosen so glamorous a career?

Suppose I had made a more prosaic choice and joined the family business that I might have someday run. I knew, of course, about the material rewards possible in business and about the rewards to the psyche inherent in providing jobs for employees and satisfaction for customers. But drama?

In the years since then, I have done much reporting and editing in business journalism. I have come to realize that TV is missing a bet.

Sure, journalism can be exciting; hence the newsroom dramas on your screen. That is triply true of police work.

But why isn't the same type of excitement in the business world recognized? Why must the business executive invariably be shown as a bumbler, or as a bum whose deals are the products not of brains or guts, but of a stacked deck? Why do the "Falcon Crests" and "Dallases" focus on who is making out

with whom of the opposite sex—rather than on the real drama of business?

Have TV scriptwriters never thought of the physical danger threatening so many business owners? Or how that danger is sometimes met in spine-tingling fashion?

I am reminded of the mom-and-pop store that was stuck up by two gunmen. The store owner was shot—para-

"Sure, journalism can be exciting... But why isn't the same excitement in the business world recognized?"



PHOTO: T. MICHAEL REZA

lyzed as a result. His wife was convinced the crooks would come back, and when they did, she was ready. She foiled a second robbery by shooting them both.

Ross Perot, founder of Electronic Data Systems, once told me about perils he faced long before he made his billions. At age 12, he launched a Texarkana, Tex., newspaper route "in a very poor part of town, where no route existed because the newspaper felt people there wouldn't pay."

Perot found his route so large that he had to cover it on horseback. Giving good service, he made good money—and his customers paid on time. But

"nearly every Sunday morning—I would be out at 3:30 a.m.—somebody would try to rob me, and I'd have to be on the alert to ride off before they could grab the reins."

Drama in business can involve other types of danger—for example, that of a venture dying for lack of vital funds.

Frederick W. Smith, founder of Federal Express, told me how, when bankruptcy loomed in the early days, he was "turned down a zillion times" by investors. Glumly waiting for a plane that would fly him back to Memphis from Chicago, he had an impulse he cannot explain. He flew to Las Vegas instead, hit a blackjack table with the couple of hundred dollars he had in his pockets and won \$27,000. It was enough to meet a payroll, giving him time to round up \$11 million that enabled Federal Express to take off.

Timing can be everything in business. IC Industries Chairman William B. Johnson told me how a merger of IC's Illinois Central Railroad and the Gulf, Mobile & Ohio was consummated despite two other railroads' opposition.

A federal court panel had dissolved a restraining order blocking the merger. Johnson realized the panel had not, as was customary, delayed the effective date of the decision, giving the other side time to appeal to the Supreme Court.

He flew board members into Chicago and "got our lawyer off an island in Maine and down to New York." The next morning, while the IC board met in Chicago, the Gulf, Mobile board met in St. Louis. "We kept the telephone line open," Johnson said, "and we had the lawyer on the way with documents ready to be signed."

The new railroad, the Illinois Central Gulf, was a Delaware corporation. So a merger certificate was sent by messenger to Dover, Del.

"And you know, the messenger got lost, and we had the state police looking for him... And we knew that a notice of appeal could be filed at any minute and terminate our whole merger process. We just hung by our fingernails. Finally, that guy showed up out of nowhere. He put in a call and said: 'Well, I filed it.' And that's the way the merger was made."

As I said, TV is missing a bet. **B**

Henry Altman recently retired as managing editor of Nation's Business.

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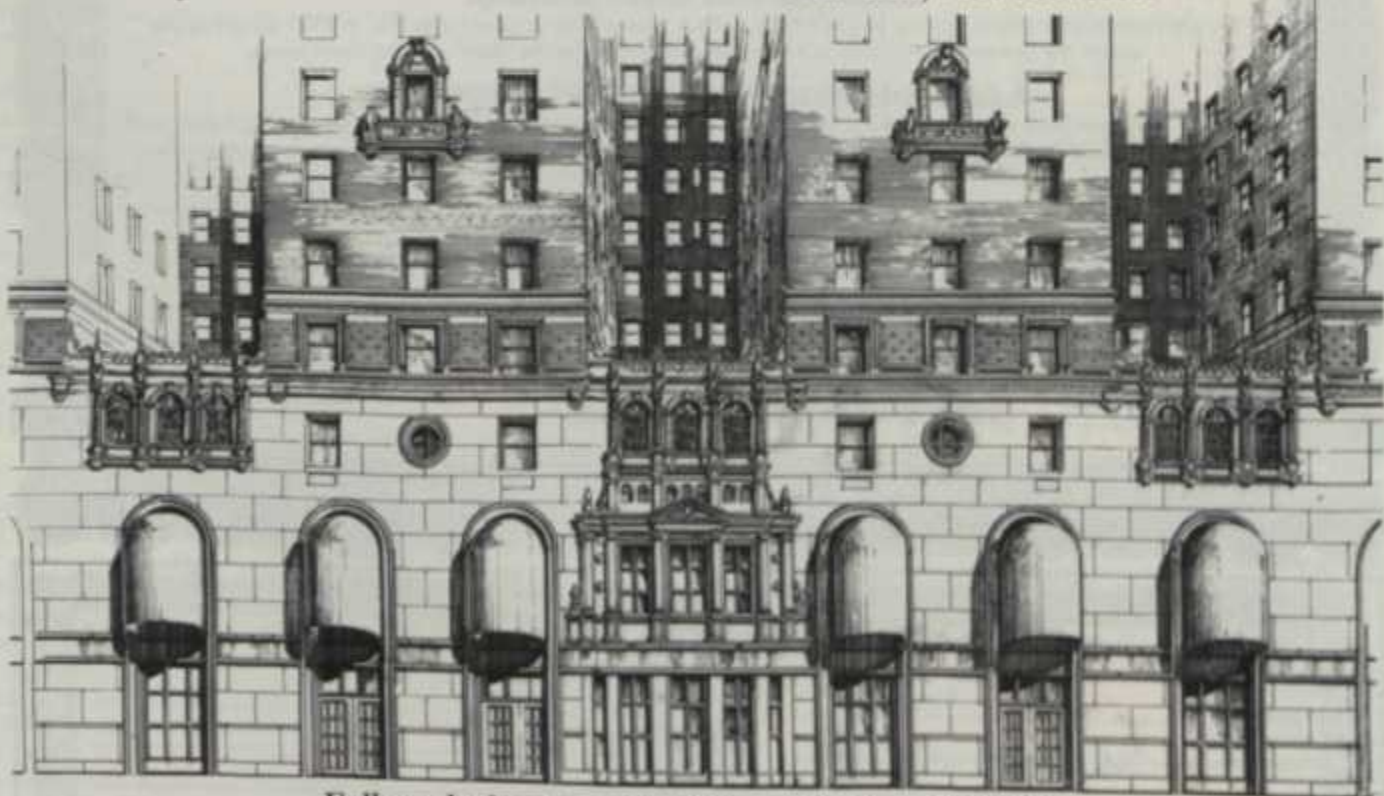
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The complete offering terms are in an offering plan available from the Sponsor. This advertisement is not an offering to New Jersey residents.

Letters

The Best Ads Survey

Your survey on the best business advertising of 1986 ["You Tell Us," February] is biased beyond belief in allowing members of the nominating committee to submit ads of their own agencies or companies for consideration. Of the 13 ads in the print category and six in the broadcast category, only two in each group were not connected with a committee member's firm.

In future surveys, I recommend you bar ads from agencies or companies represented on the nominating committee or that committee membership be limited to business people to whom the advertisers are trying to sell.

James C. McKeon
Springfield, Mass.

Editor's Note: To ensure the highest quality work was represented, professionals were selected as nominators. They were allowed to nominate work from their own agencies or companies, but were also required to nominate other advertising. And, as the survey results starting on page 41 show, the first place winners in both categories are ads from agencies not represented on the nominating committee.

Seed Of The Future

Mark Pastin's suggestion that "the information revolution threatens the lifeblood of entrepreneurship—the process of trial and error" ["Losing The Future To The Past," February] is ludicrous.

Although he casually dismisses it as a "short-run" phenomenon, the information revolution is merely the seed for tens of thousands of companies emerging in the field.

To set the record straight, Steve Jobs would still be in his garage if it weren't for venture capitalists. There's always some element of risk in venture capital investing; but without adequate infor-

mation, it's like betting on the ponies. Pass Pastin's laws to limit the spread of information, and he will see the death of entrepreneurial activity.

Michael C. Nock
Lakewood, Ohio

Wrong Currency

Your article "South Korea's Growing Clout" [December] defines the three "lows" which are fueling South Korea's export-oriented economy as low oil prices, low interest rates and the low U.S. dollar. However, a low dollar would increase costs of Korean-imported goods in the States. A more appropriate interpretation would be the low Korean won exchange rate in relation to the Japanese yen. The effect is, on a comparative basis, that Japanese products are now becoming more expensive,

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COMMENTARY

Letters

thereby increasing the attractiveness of Korean goods.

Lloyd D. George
Seoul, Korea

Editor's Note: Mr. George is right about the won's low exchange rate with the yen. But the reason for its low rate is that it is closely tied to the dollar. A low dollar at this time means a low won and a competitive advantage for the Koreans vis-a-vis the Japanese.

A Fresh Approach

As founder and president of a firm that provides consulting services to financially troubled companies, I found your article, "Keeping Your Business Afloat" [February], a fresh approach to the subject of bankrupt operations. I take pride in being one of your sources.

This letter has the additional purpose of correcting my middle initial and giving the location of my firm.

James W. Sullivan
Sullivan Associates
Excelsior, Minn.

Going It Alone

I beg to differ with Mr. Lanyi ["How To Become Your Broker's Pet," January] about relying on your broker's advice and not doing your own investigating. He relates it to having an expensive dog and barking yourself. However, the point is that the broker may not be a valued purebred, but rather an unwanted hound.

Let's hear it for the individual who investigates a stock, then cashes in on his own.

Tom Van Zandt
Fayetteville, Ark.

More On Liberal Arts Education

I am sick of hearing liberal arts proponents say business majors can only crunch numbers and are unable to think creatively ["Liberal Arts And Business," December].

Most business majors also are required to take nonbusiness electives—such as philosophy, ethics and art—to round out their educations. A few business classes sure wouldn't hurt the liberal arts majors one bit.

Were business to hire only liberal arts majors, training programs would have to start from ground zero. I don't think a philosophy course would help the trainees learn business skills any faster or more easily.

Marc Nall
Vincennes, Ind.

Nation's Business

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Soon, A Filing Mistake Can Cost You \$1,000!

"Help Wanted: Passport Required" sounds exotic. But this company is looking for a mail room clerk! That's the result of a new federal regulation that goes into effect June 1.

- Every company must verify citizenship status of all new hires.
- Paperwork must be completed within 24 hours of the start of employment.
- Paperwork mistakes—even on bona fide U.S. citizens—can cost \$1,000 each.

YOU CAN'T AFFORD TO IGNORE THIS REQUIREMENT. See our article for help on page 32.

Order copies for anyone who hires or processes personnel papers.

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Here's your chance to experience the pride of running a business. Your chance to reap the rewards of entrepreneurship—with few of the risks you might run into elsewhere.

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The Nation's Business

Business Outlook

By Roger Thompson

More Optimism In The Forecasts

Anticipated Changes, Fourth Quarter '86 To Fourth Quarter '87
(In Percent)



Optimists

	January GNP	Forecast CPI	Current GNP	Forecast CPI
Richard Rahn, U.S. Chamber of Commerce	3.3	2.2	3.0	3.4
Robert J. Genetski, Harris Bank	3.7	1.8	4.2	2.2
Jerry Jordan, First Interstate Bank	3.6	4.4	3.4	4.4
Alan Reynolds, Polyconomics, Inc.	4.3	2.2	4.0	2.9
James R. Solloway, Argus Research	3.7	3.5	4.3	3.5

Pessimists

	January GNP	Forecast CPI	Current GNP	Forecast CPI
National Assn. of Manufacturers	1.4	3.8	2.1	4.1
Laurence H. Meyer, L.H. Meyer Associates	2.1	3.8	2.5	3.8
John D. Paulus, Morgan Stanley	1.9	3.3	2.0	3.4
National Assn. of Realtors	1.5	3.2	2.3	3.2
Edward Yardeni, Prudential-Bache	0.4	1.9	1.9	3.6

Consensus

	January GNP	Forecast CPI	Current GNP	Forecast CPI
Blue Chip Economic Indicators	2.9	3.9	2.9	4.1

CHART: MARIE JENSEN

Healthy Signs For The Economy

The U.S. economy left the starting block with an unexpected burst of energy in January, causing many forecasters to raise slightly their estimates of how fast the economy will run this year.

In January purchasing agents reported a dramatic increase in new orders, reaching the highest level since July 1984; industry operated at 79.7 percent of capacity, the best performance in almost a year; and the jobless rate held steady at 6.7 percent while employment rose 448,000 on a seasonally adjusted basis.

These positive signs were enough to dispel lingering fears that the economy could slip into a recession during the first half of the year. In fact, all of the most pessimistic forecasters surveyed by *Nation's Business* in January have now revised their growth projections upward (see chart). Optimists remained upbeat, but somewhat less so. And the consensus forecast held fast.

Optimists and pessimists alike agree that inflation roughly will double from

last year's level of only 1.9 percent, but it will not be a problem.

"A slump is still possible, but now I feel more comfortable with a muddling scenario," says Edward Yardeni, chief economist for Prudential-Bache Securities. He was the only forecaster among the 25 surveyed in January who projected a recession in the first half of the year.

Yardeni notes that gains in factory employment in the fourth quarter of last year appear "solid and, perhaps, even sustainable." Factory jobs rose an average of 28,300 per month during the last three months of 1986 compared with an average monthly loss of 20,400 during the first nine months.

Even so, production did not keep up with demand, and inventories were drawn unexpectedly low. "Producers were caught rather flat-footed at the end of the year," says Chris Varvares, senior economist with Laurence H. Meyer & Associates, a forecasting firm in St. Louis.

The drawdown of inventories happened despite the economy's poor performance in the fourth quarter, when

gross national product grew by an anemic 1.3 percent.

Many economists saw signs in fourth quarter trade figures that the economy will get a long-awaited boost this year from increased U.S. exports. Imports declined by a slight 0.2 percent during the period while exports rose at an annual rate of 13.6 percent, indicating that a weaker dollar finally is making American products more competitive in foreign markets.

James R. Solloway, director of economic research at Argus Research Corporation in New York, moved his already optimistic forecast up a bit more because "the GNP results from the fourth quarter convinced us that demand for products has shifted decisively away from importers and toward U.S. manufacturers."

Despite these encouraging signs, none of the pessimists expects 1987 growth to surpass last year's disappointing 2.5 percent level—the worst since the recovery began four years ago. Says Gordon Richards, an economist with the National Association of Manufacturers: "It looks as if the emerging consensus is that we will have economic stagnation rather than recession."

In fact, the consensus of 51 forecasters surveyed monthly by *Blue Chip Economic Indicators* of Sedona, Ariz., calls for another year of sluggish growth. The group estimates that GNP will advance only 2.9 percent, fourth quarter to fourth quarter. And the National Association of Business Economists' quarterly survey now forecasts 1987 growth at just 2.8 percent.

The Blue Chip group feared that tax reform would hit hard in the first half, particularly the first quarter. A sharp drop in orders for big-ticket manufactured goods during January underscored the point. Durable goods orders fell 7.5 percent. But analysts cautioned that the numbers are volatile and subject to large revisions.

The drop reflected an effort by consumers and businesses to take advantage of write-offs that were eliminated or trimmed by the new tax law that took effect January 1.

The most optimistic forecasters surveyed by *Nation's Business* continue

Even the most pessimistic forecasters are now seeing indications that 1987 won't be such a bad year for the economy after all.

to believe the economy is poised for a sharp pickup in growth, although three of the five have revised their projections downward.

"I shaded [the forecast] down a little mostly because of weak auto sales," says Alan Reynolds, an economist with Polyeconomics, Inc., of Morristown, N.J. Car sales surged late last year, fueled by close-out deals, rock-bottom interest rates and a last-minute frenzy to qualify for sales tax deductions. But sales plummeted in January and February, despite a renewal of buyer incentives.

Richard Rahn, chief economist of the U.S. Chamber of Commerce, revised his forecast downward based partly on the weak performance of the fourth quarter. He is also concerned that consumer spending will get a delayed charge from tax law changes.

Under the new tax law, lower individual rates will boost consumer income about \$16 billion this year and more than twice that amount next year. Rahn expects consumers will spend most of that increase. Typically, however, tax-

payers must fill out a new Internal Revenue Service W-4 form to adjust their federal tax withholding downward before the increase begins to show up in paychecks. But the complexity of the form has slowed that process, thus diminishing tax reform's first quarter impact on consumer spending, says Rahn.

IRS unveiled a simplified W-4 form March 1 that should be available nationwide in April. But some experts think the abbreviated form will increase withholdings for most taxpayers, shrinking after-tax pay and dampening spending.

One thing almost all analysts agree on is that the current economic environment has made forecasting more treacherous than ever. Signs giving rise to optimism quickly can turn.

In January, for example, exports of U.S. goods fell by 11.5 percent, a bad sign for a resurgence of manufacturing. Consumer prices rose 0.7 percent, reflecting higher import and fuel costs. And purchasing agents reported that the pace of new orders in February declined from the month before. ■

Slower Pace For Entrepreneurs

Uncertainty over tax reform put the brakes on new business starts in the second half of 1986 and continued to slow entrepreneurial activity early this year, says Joseph W. Duncan, chief economist for Dun & Bradstreet Corporation.

Starts last year grew only 0.7 percent to 251,597, up from 249,770 in 1985. Five of nine Census Bureau regions reported increases, with New England leading the pack (see chart). Through February, starts this year were off more than 10 percent from the same period a year earlier.

New business activity rose by a healthy 8.5 percent during the first six months of 1986, before details of tax reform began to take shape. Once the tax bill passed, starts were "virtually flat statistically" for the remainder of the year, says Duncan.

"My interpretation of the figures is that people were confused over tax reform," he adds. "That uncertainty has continued for the first weeks of the new year. Until people feel comfortable with the new tax law, we may have to wait a while before start-up activity goes up again."

Of nine major industry sectors measured, only three registered increases: finance, insurance and real estate, up 8.4 percent; agriculture, forestry and fishing, up 6.6 percent; and services, up 2.4 percent.

New employment, however, was off in all industry sectors. The number of new jobs decreased 9.1 percent in 1986 to 1.2 million. "The decline reflects the ongoing trend toward new businesses starting with fewer employees than in years past," says Duncan.

Boosting Women's Contracts

Women own one fourth of all small businesses but are awarded only about 1 percent of all federal prime contracts. This mismatch is the subject of two upcoming conferences designed to link women business owners with government and corporate contracting opportunities.

More than 3,000 participants are expected at each MegaMarketplace event,

Small Business Report

By Roger Thompson

U.S. Business Starts By Region

Region	Number Of Firms 1985	Number Of Firms 1986	Percent Change	Number Of Employees 1985	Number Of Employees 1986	Percent Change
New England	11,609	14,006	20.6	58,921	60,171	2.1
Middle Atlantic	36,922	41,759	13.1	182,124	176,081	-3.3
E. North Central	35,923	35,339	-1.6	171,976	161,324	-6.2
W. North Central	14,488	13,730	-5.2	84,585	75,734	-10.5
South Atlantic	46,637	47,160	1.1	253,331	238,057	-6.0
E. South Central	12,257	12,694	3.6	73,233	70,585	-3.6
W. South Central	35,915	30,916	-13.9	204,584	161,441	-21.1
Mountain	16,967	16,159	-4.8	92,187	79,796	-13.4
Pacific	39,052	39,834	2.0	221,065	196,784	-11.0
Totals	249,770	251,597	0.7	1,342,006	1,219,973	-9.1

Source: Dun & Bradstreet Corp.

CHART: WARREN JOHNSON

Small Business Report

the first at the Washington, D.C., convention center April 9, and the second at the Los Angeles convention center May 27.

Participants will be matched by computer for appointments with government and industry contracting officials.

"Ten years ago, women-owned businesses weren't competitive in the marketplace," says Susan R. Solomon,

spokeswoman for the Commerce Department, a cosponsor of the conferences with the National Association of Women Business Owners.

"Now they offer more variety and sophistication. It's time to make procurement officials more aware of what women business owners have to offer. They are not just baking cookies and doing interior decorating." ■

Washington Roundup

By Albert G. Holzinger

Senate's Big PAC Attack

Senate Majority Leader Robert Byrd (D-W.Va.), newly returned to that powerful office by virtue of Democratic victories in the 1986 congressional elections, evoked more than a few quizzical looks recently by announcing that restructuring of campaign financing is among his top priorities.

After all, 249 of 250 incumbent senators and representatives of Byrd's party who sought re-election last year won, and most had support from political action committees (PACs). But Byrd is cosponsoring a proposal that would sharply curtail PACs' contributions and provide for substantial taxpayer financing of congressional campaigns.

Byrd's most plausible motivation is concern that the Republican Party has raised substantially more candidate campaign money than his own in recent years.

PAC limitation provisions of the campaign finance bill by Sens. David L. Boren (D-Okla.), Edward M. Kennedy (D-Mass.) and others would, among other things:

- Limit the total amount of money candidates and national political party committees could accept from all PACs.
- Lower the amount PACs could contribute to elections.
- Count individual contributions to a candidate that are bundled together and forwarded by PACs against contribution limits on individuals and the committees.

Taxpayer financing provisions would provide tax dollars to candidates who agree to limit spending to specified amounts that would vary according to the voting-age populations of their respective states. Taxpayer financing also would be limited to general elec-

At a recent U.S. Chamber of Commerce forum, Sen. Wendell H. Ford (D-Ky.) discusses proposed legislation that would sharply curtail PAC campaign contributions.



PHOTO: NATION'S BUSINESS

tion candidates who agree to refuse PAC dollars, large contributions and out-of-state financial support and to avoid use of personal funds in their campaigns.

The Senate Rules and Administration Committee already has held hearings on the Boren proposal, which seems to have struck an emotional chord in many lawmakers.

Boren, for example, charges that PACs currently "threaten the basic concept of grass-roots democracy." Sen. Phil Gramm (R-Tex.) counters: "The issue here is freedom: Should people have freedom to collectively contribute through PACs to candidates for public office? I say, yes."

Current conventional wisdom in Washington is that Byrd's strong support will result in approval of campaign finance changes that do not go as far as Boren's proposals.

Sen. Wendell H. Ford (D-Ky.), chairman of the Rules Committee, told a business audience at the U.S. Chamber of Commerce recently that many were skeptical about the Boren bill, especially its public financing provisions. The concept of taxpayer financing of congressional campaigns has encountered strong public opposition when suggested in the past.

The Rules Committee hopes to draft a "realistic alternative" that will "make more people want to participate in the [electoral] process and bring down the cost of election campaigns," Ford continued.

"If we don't move effectively to restore people's interest and participation in elections, then even a complete ban on PACs won't mean anything," he concluded.

Shootout On Plant Closings

The first shot of a widely anticipated war between union and business supporters in Congress has been fired.

In the wake of a recommendation February 17 by the AFL-CIO executive committee, legislation has been introduced in the Senate and House to require employers to give advance notice of large-scale layoffs or plant closings. The notice would have to come three to six months ahead of either action, depending on the number of workers affected.

Committee action on the similar but not identical measures is predicted this month or next by the bills' principal proponents, Sens. Edward M. Kennedy (D-Mass.) and Howard M. Metzenbaum (D-Ohio) and Reps. William Clay (D-Mo.) and William D. Ford (D-Calif.).

"Plant closings and mass layoffs strip 3 million workers of their jobs every year," the union executive committee says in support of the bills. "In many instances, injuries suffered by workers and their communities could be ameliorated, or avoided altogether, by timely government intervention."

But employer groups and the Reagan administration are opposing the measures on grounds that they limit management's flexibility to curtail unprofitable operations. Business also opposes the legislation on grounds that it unfairly involves unions and government in a traditional management decision.

The House defeated a plant closing bill, 203-208, last year, but the closeness of the vote and the Democratic takeover of Senate control has raised new concerns among opponents. ■

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The Corporate Immigrants

By Henry Eason

At Hitachi Consumer Products of America, being one big happy family has a bottom-line impact that comes from enhanced productivity.

President Kazumitsu Minami (left) keeps his door open to workers. Vice President Rock Umehara (left in right photo) moves throughout the plant,

keeping very close to the action. Workers there say management listens to their views and acts decisively.



PHOTOS: JIM MCKENNA

Kazumitsu Minami jokes that he is "not a godfather" to the 360 people who work at Hitachi Consumer Products of America's assembly plant in Anaheim, Calif. But workers who have problems with personal finances, troubles at home or a gripe about the assembly line are welcome in his office, where they can discuss their concerns privately. Minami, president of the company, not only listens, he acts.

Last year, for example, several workers suggested that the television-manufacturing operation shift to a four-day week with longer working days. Minami reviewed the pros and cons of the

issue with his American and Japanese managers and with employees in group meetings. He then put the matter to a vote.

The five-day work week won. But Minami was still concerned that a minority of his workers went away displeased. He did not drop the issue until he and his managers found a solution to satisfy the losing side. They came up with a four-day option for a new assembly line for videocassette recorders and offered transfers to those wanting to adopt that schedule.

That small exercise in workshop democracy is an illustration of the kind of contribution that corporate immigrants

like Hitachi are bringing with their investments to our soil. The accelerating growth of foreign-owned firms in the United States and the impact they are having on the way we do business is one of the most significant developments on the American business scene today.

In the tradition of the historic immigration of individuals to this country, these corporate immigrants are coming in search of economic opportunity, but they also are making major and immediate contributions. They build factories, lend money, provide new technology, shore up ailing firms, introduce more effective management techniques

In the tradition of the historic immigration of individuals to this country, foreign companies are coming in search of economic opportunity, but they also are making major and immediate contributions.



Hundreds of thousands of American companies, like Mark Peterson's Marko Foam Products, sell goods and

services to corporate immigrants. Hitachi buys some of its packing materials from Marko.



and even help increase American exports. (See editorial, page 64.)

Direct foreign investment in the United States totaled \$183 billion in 1985, the last year for which official figures are available, and the experts say that number is well over \$200 billion now. Even more significant is the rate of growth: Foreign direct investment has about doubled since 1981 and is up 10 times over the 1970 level.

Great Britain, whose role as a major player in the American economy goes back to the earliest days of this nation, retains the top spot among foreign direct investors at \$43.7 billion.

The Netherlands is second in direct investment at \$36 billion and Japan third, at \$19 billion. In 1981, the respective totals were \$18.5 billion, \$26.8 billion and \$7.7 billion.

Those numbers tell only part of the story, however. Basic shifts in the patterns are under way. Japan accounted for nearly 24 percent of direct foreign investment in this country in 1985, well ahead of the United Kingdom's 19 percent; the Netherlands' share was under 5 percent.

There are more than 10,000 affiliates of foreign companies operating in the United States. They generate more than \$600 billion in annual sales and \$10 billion in net income and have nearly 3 million employees, who receive a total of \$75 billion a year and send it rippling through the economy.

Harvey A. Poniachek, a Bank of America vice president/economist and an expert on international economics, says in his book, *Direct Foreign Investment in the United States* (Lexington Books, D.C. Heath & Company, Lexington, Mass.), that the factors motivating foreign companies to establish U.S. operations vary by industry, country of origin and the foreign corporations' strategies. Key factors, he says, include the desire to establish U.S. plants as insurance against being shut out of the vast American market if protectionist forces in Congress ever prevail.

Currency fluctuations and fear of protectionism are also strong motivation for countries like Japan and South Korea to open plants in the United States at a fast pace. Many of the remedies proposed in Congress for easing

record U.S. trade deficits are aimed at curtailing imports from those two countries, which are competing head-on with a wide range of American industries with high visibility. They include autos, steel, computers and related products, shipbuilding, footwear, consumer electronics, machine tools and construction equipment.

The U.S. trade deficit has left foreign companies in Japan, South Korea and West Germany with billions of dollars they can invest in this country. And the sharp fall of the dollar against currencies of trading partners has made investments here much better bargains than they have been for many years.

Whatever their reasons, the corporate immigrants are flocking to the United States. While countries from all over the world are participating, the surge in investments by the Japanese and, to a lesser extent, the South Koreans has focused particular attention on the expanding presence of those countries in the United States.

Martin Starr, director of the Center

COVER STORY

The Corporate Immigrants

Siemens' Princeton, N.J., lab is a clearinghouse for technology from the firm's operations in 130 nations. Americans benefit from the resulting productivity innovations. Bottom:

Allen Feldman's office supply company in New Jersey benefits more directly from Siemens: more than \$7 million in orders.



PHOTO: BOB KRIST—BLACK STAR

for Operations at Columbia University's Graduate School of Business, says the increase in the number of U.S. plants of Japanese companies is having a particular impact on the way Americans manage their businesses. Activities of Starr's center include assessments of degrees of competitiveness among companies on the international scene.

Corporate immigrants from Japan, he says, are having a particularly strong impact on managerial techniques used from the plant floor to the executive suite.

The Japanese are transferring to their American-based businesses, Starr says, their concepts that "minimize waste, maximize quality and focus on building loyalty from satisfied customers and on making the whole thing work through loyal employees."

A loyal work force is built, he says, through development of a strong team concept, the idea that every worker is critical to the success of the operation. A key aspect of that approach, Starr says, is the elimination of what is often a source of friction in American companies—the view that professionals constitute an elite, while workers on the plant floor are the "slobs."

Another managerial approach common in Japanese operations is the use of pay raises to reward groups of workers, rather than individuals. This not only reinforces the team concept, Starr notes, but it also results in peer pressure within the group to deal with members holding it back.



PHOTO: STEVE ALTMAN

Those and other Japanese approaches to running a company will be adopted by more and more American companies, Starr predicts. He anticipates the changes will take place first in newer and smaller U.S. enterprises, but will come more slowly to larger companies, "which will have a harder time getting rid of their bureaucratic hang-ups."

A look at four corporate immigrants—Japan's Hitachi, West Germa-

ny's Siemens, South Korea's Gold Star and the Royal Bank of Canada—shows how these representative companies from abroad are weaving new threads into America's economic fabric.

And they are doing so in an environment much changed from that of even a few years ago, when there was a substantial concern among Americans that Arab oil sheiks and the Japanese were gobbling up American farms and secretly acquiring New York's biggest banks. Gone also is the paranoia that foreigners are somehow sapping America with their investments. The economies of the world are becoming so interdependent that investors from Osaka are as welcome in Atlanta as those from Cleveland.

Most American states now have economic development teams roaming the world to invite foreign companies interested in U.S. operations to locate them in their respective states.

The competition can be fierce because of the high stakes involved in terms of jobs, new sources of taxes and the way that payrolls ripple through a regional economy. Tennessee, for example, has mounted a particularly aggressive effort to attract foreign plants and thus far has attracted 86 that have invested \$5.1 billion. European companies account for \$3.6 billion of that total and Japanese firms, \$1.3 billion. The substantial Japanese manufacturing activity in Tennessee and other Southern states represents an intensification of U.S. investments by Japanese companies responding to





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The Corporate Immigrants

COVER STORY

P.W. Suh (wearing red sweater), president of Gold Star of America plant in Huntsville, Ala., with company workers in a bowling alley

the company rented for its employees. Bottom: Tony Lee helps Martha Sands in the Gold Star plant.

strong American complaints about the long-time trade surplus their country has enjoyed at the expense of the United States.

Hitachi Consumer Products established its Los Angeles area plant in 1979 to make color television sets when the company had great concern that the U.S. government would impose import quotas on that product. Los Angeles plant manager Minami was on the team that chose the site and stayed on to expand the company's operations into producing VCRs.

But Minami's firm does a lot more than assemble TVs in California. It also is introducing what its American employees and area suppliers say is a much happier, familial and more productive way of working.

Minami says he wants to see members of the work force move up at Hitachi. One of them, Robert Davis, says he welcomes the opportunities the company offers. Davis came ashore in Los Angeles after a Navy career and, after a few unsatisfying work experiences, landed at Hitachi as an electronics repair technician. He found, he recalls, that the Japanese had discovered a way to boost production by showing special concern for the employee.

He moved to lead technician, then to group leader to supervisor to assistant manager. And he believes it is possible for him to become president.

"I wouldn't leave here," Davis says emphatically. "They would have to close the place down first."

That's the kind of loyalty the Japanese expect in return for their approach to workers. Minami sent Davis to Japan twice to get better acquainted with production methods.

Hitachi's decision to locate in Los Angeles has also been a boon to area business. Rule-of-thumb economics says that one invested dollar has a total multiplier effect on a community—jobs, taxes, etc.—of \$3.50 to \$5.

Another impact on the U.S. economy from foreign plants is the business they do with U.S. suppliers.

Murko Foam Products of Santa Ana, Calif., a \$5 million-a-year company, makes packing materials for Hitachi-produced TVs and VCRs. Marko Vice President Richard Peterson says a kind of familial loyalty even shines through the contractual relationship between tiny Marko and global Hitachi. Peterson is delighted with Hitachi's bucks (representing about 5 percent of Marko's sales) but says he also is learning



PHOTOS: MIKE CLEMMER

better business techniques from Minami and his people.

"Once you break through and win their confidence," Peterson says, "they stick with you. Also, they are very well organized. They have good cash flow and pay on time."

Peterson says he is adapting well to the Japanese just-in-time practice of delivering products at a point when they can be put to immediate use, rather

than be stockpiled in costly inventories for use later. But Columbia's Martin Starr says the manufacturer/vendor relationship does not always work well when Japanese companies seek arrangements with American suppliers.

The Japanese, he says, tend to want to arrange their entire, complex operations "as if they were directing a symphony orchestra or a ballet, and everyone involved has to perform exactly on

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COVER STORY

The Corporate Immigrants

the director's schedule." American suppliers who serve many customers cannot always fit their performances into such tightly scheduled and structured operations, Starr says.

The American subsidiaries of Hitachi, Ltd., in Tokyo collectively have invested more than \$110 million in America. Minami's firm, Hitachi Consumer Products, Inc., of Anaheim, Calif., is affiliated with 17 other Hitachi corporations. One of them, Hitachi America, Ltd., of Tarrytown, N.Y., sells over \$1 billion annually in industrial and electronics equipment.

President Tsuneo Tanaka is at the head of an army of American salespeople, but only one of his 15 general managers is an American. He says this is unfortunate and he would like to leave as his legacy an almost all-American Hitachi America, Ltd.

"I am trying to promote Americans as soon as possible," says Tanaka. At Hitachi America there are three American deputy general managers Tanaka hopes will soon be promoted. Blending Japanese management style at the highest corporate level with American management methods—a blend Tanaka considers essential—is not easy. Tanaka says Americans are basically better salespeople than Japanese, but Japanese are more skilled at production.

But some American managers feel their potential at Japanese companies is limited simply because they are not Japanese. They complain that explanations that they are not current with the latest, Japanese-developed technology or are not yet ready for top responsibilities within the framework of a Japanese-owned company are excuses for denying them promotions.

Overall, however, the United States appears to be settling into the type of mutually beneficial relationship with its Pacific trading partners that it has long had with many firms from Europe. One such firm, Germany's Siemens, laid the first transatlantic cable linking North America and Europe in 1874 and is now involved in extensive operations in America itself.

After World War II, Siemens and many other European companies rebounded mightily as a technological force in the United States. Siemens' sales in America were only \$40 million in 1973, and it had no significant investments here. This year Siemens operates 35 factories and 200 offices in the United States, where its sales will probably

exceed \$2 billion. It employs more than 25,000 Americans.

But, more important, it is what Siemens does that makes it important to the U.S. economy. Its main line of work is enhancing productivity, a subject that is receiving sharply increased attention from U.S. government and business under the label of "competitive-ness."

At Siemens Research and Technology Laboratories in Princeton, N.J., teams of Germans and Americans are already in the 21st century. They are designing factories of the future and developing artificial intelligence, robotics, software technology, computer systems, design automation and microelectronics.

Siemens' Princeton facility absorbs knowledge from Siemens' operations in 130 countries, where 30,000 of its 350,000 employees are engaged in research and development at a cost of \$6 million a day.

At the Princeton clearinghouse, Siemens' scientists blend this knowledge with technology developed there and at other Siemens' firms in the States, then

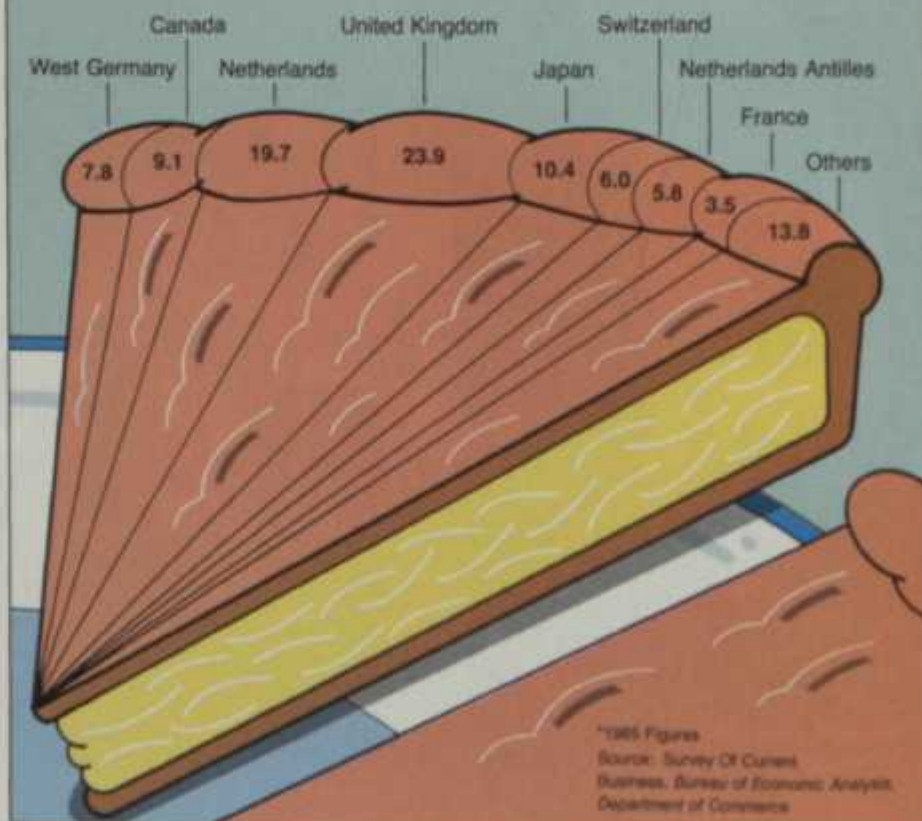
apply it to developing the company's goods and services. In the process, a tremendous amount of technology is transferred to American firms and universities with which Siemens is engaged in numerous high tech fields.

"We are the glue that puts the corporate culture together," says Karl Zaininger, the Siemens executive vice president in charge of the Princeton laboratory. "We are technology brokers," managing the in-flow of ideas from around the Siemens' worldwide system, then channeling them where appropriate to the American-based firms.

Hans Decker is president of the Siemens Capital Corporation of New York, which plays a unifying role for Siemens' firms in the United States. Decker says that in addition to the technology transfer contributions Siemens makes as a corporate immigrant, the company uses many American goods and services. In the 1984-85 fiscal year, Siemens' U.S. sales were about \$1.9 billion. More than \$1.5 billion of the value of those sales, in-

Dividing The Foreign Slice Of The Pie

Percent Of Direct Investment In The U.S.*



cluding payroll, represents goods and services purchased in America.

"Foreign firms like Siemens are good corporate citizens, just like I hope American firms are when they operate overseas. That's what makes foreign trade work," says Allen Feldman, president of New Jersey Office Supply Company in Whippany, N.J. Feldman has sold Siemens more than \$7 million in office furniture and equipment in his 15-year relationship with the German company.

While German companies have long been present in America, the South Koreans are relative newcomers. The first Korean company to settle here was the Lucky-Goldstar subsidiary, Gold Star of America, Inc., which opened a color TV plant in Huntsville, Ala., six years ago. It now employs 400 workers in a television-manufacturing plant, which turns out a million sets a year, and in a separate microwave-oven plant, which opened last August and is expected to be producing 300,000 units by its second year. The company expects to open a third Huntsville plant, which will make videocassette recorders, by the end of this year.

The Koreans who built the Gold Star plant in Huntsville have already built strong community ties. Their concept of human relations "is not unlike the Southern approach," says Huntsville Chamber of Commerce President Guy Nerren. P.W. Suh, president of the Gold Star company in Huntsville, reinforces that statement when he greets workers by their first names as he walks along the TV production line and through the warehouse.

Suh pays his workers cash bonuses if they show up on time every day for three months. He encourages parallel production lines that compete against each other, with rewards for members of the winning team. Best quality records also earn prizes. Once a month, he throws parties for employees. Sometimes he rents a bowling alley. Other times he gives a picnic. Sometimes he closes the plant early in the afternoon, and everyone hits the volleyball courts.

When production worker Rachel Cothren's husband had to go to the hospital, she was startled late one night to see Suh, carrying a box of candy and magazines, coming toward her down the hospital corridor. He sat with her through the night. "Can you imagine a plant manager anywhere else doing that for a line worker?" Cothren asks.

Every attempt ever made to unionize Gold Star has met with summary rejection, thanks to workers like Cothren. "Unions trying to get into these companies would destroy them," she says.

Gold Star of America, Inc., is a wholly owned manufacturing subsidiary of Goldstar Company, Inc., which, in turn, is part of The Lucky-Goldstar group, an \$11 billion, worldwide conglomerate of 29 major companies and 28 affiliates involved in chemicals, energy, resources, construction, engineering, finance and telecommunications, as well as consumer electronics.

Goldstar entered the American mar-

"Foreign firms like Siemens are good corporate citizens, just like I hope American firms are when they operate overseas. That's what makes foreign trade work."

—ALLEN FELDMAN
OF NEW JERSEY
OFFICE SUPPLY

ket in 1978 with a line of moderately priced black-and-white television sets that generated enough consumer support to convince the company that major opportunities awaited it here. It followed up with the introduction of additional products that include stereo radio-cassette players, electric fans, compact refrigerators, microwave ovens and videocassette recorders.

As Bank of America economist Ponlachek points out, the existence of American markets for such output is one of the key factors, along with worries about protectionist walls, that attract foreign manufacturers to this country. Among the other lures, he says, are:

- The growth potential, as well as the immediate sales prospect, offered by accessibility to an immense market.
- Availability of high technology and a highly skilled and stable labor force.
- Relatively easy access to the strong U.S. financial markets.
- Undervaluation of some U.S. companies' common stock.
- Relatively lower production costs

in the United States, compared with other countries, as real wages and taxes go up while production falls.

- Proximity of resources and an efficient distribution system.
- Relatively limited U.S. government intervention in industry.
- Political stability.
- Currency fluctuations.

While many of those considerations apply to manufacturing and sales operations, they aren't the only forms of foreign investment that help drive the American economy.

Raw cash contributes mightily. It comes from direct investments in stocks and bonds and real estate and from foreign banks whose assets filter through the economy.

Almost 600 foreign banks operate in the United States. The value of their permanent investments is about \$11.5 billion, but far greater sums of money flow through them on their way to shopping centers, hotels, investment houses and other niches.

These foreign banks help finance operations at some of the nation's biggest multinationals and, indirectly, create business for the small firms that provide goods and services to bigger companies.

The Royal Bank of Canada, one of the major foreign bankers, has been in New York since 1899. Today, it serves nine other areas throughout the United States, from Miami to Los Angeles. It is a major bank for American companies like Chrysler and New York Life, giving them some of the banking services they need to expand domestically and internationally. "Our international capability is useful to an American company," says J.M. Walker, senior vice president and general manager.

The Siemens operation is only one of many West German firms in the United States, a large number of them located along Interstate Highway 95 through South Carolina, giving an increasingly international flavor to that part of the South.

And, at last count, more than 40 nationalities were represented in Huntsville, Ala., and the community's leaders are working to attract still more corporate immigrants.

That's not so unusual when you realize that those leaders include people with names like Vieh, Chang, Hammond, Korte, Diamatis and Suh. ■

To order reprints of this article, see page 57.

Advertising Is The Spice Of Life

By Nancy L. Croft

As an East Asian studies scholar at the University of Kansas, John Leifer was driven to understand Japanese culture. Today, Leifer is driven to build his own advertising culture in a firm that employs no one with agency experience.

Leifer's dream throughout college was to live and work in the ancient culture he had studied. But reality was a sharp slap in the face when he began his last semester of college in Tokyo in 1978. The romantic shrines and quiet lifestyle he imagined were clearly not present in the bustling Japanese city. After only a month abroad, he quit school and returned home to Kansas City.

His father asked him to join the family jewelry business as marketing manager. Leifer reluctantly agreed, but only until he could decide what to do with his life. It turned out the answer was at home all along.

As marketing manager for the family business, Leifer found working with outside agencies frustrating. "I noticed how limited [ad people's] imaginations and backgrounds were," he says. "Very few of the agency people had ever worked anywhere but in an agency." Leifer thought his imagination and unusual background would be assets in creating fresh advertising.

So, in 1982, Leifer gathered his savings, a \$20,000 bank loan, a computer and a list of potential clients, and he put out his placard in Shawnee Mission, a Kansas City suburb.

Despite his lack of experience in a market crowded with agencies, Leifer found a way to claim just as much savvy as veteran ad people: "I was aware that hospitals were just beginning to advertise, so logically no one could claim expertise in hospital advertising," says Leifer. "I stood on equal footing with everyone else."

St. Luke's Hospital of Kansas City was the first to test his creative energy. Leifer happened to call the hospital just when its ad agency had dropped a project—one week before deadline.

"I played art director, photographer, copywriter and creative director," Leifer remembers. "But I presented them with an ad plus an entire campaign by deadline. St. Luke's has been a loyal client ever since."

John Leifer (left) founded his Shawnee Mission, Kans., ad agency on the diverse life experiences of himself and staff members like Jack

A Kansas agency believes its clients' interests are best served by people who know about more than advertising.

Cashill and Vicki Potter. Leifer studied in Japan, Cashill had lived in France, and Potter studied to be a dancer and a sociologist.



PHOTO MARK SELIG

With that contract firmly clinched, Leifer suddenly needed to expand. But instead of surrounding himself with advertising experts, he sought only novices like himself who had led lives flavored with diversity. Leifer, 30, says he also looks for employees who are "driven, never satisfied with their performance and willing to put their own ego gratification on the shelf."

Jack Cashill, 39, executive vice president and Leifer's right-hand man, is such an employee. "Getting into advertising was a fluke," says Cashill, who joined Leifer in 1983. He had just returned from a year-long Fulbright fellowship in Nancy, France, where he lectured on American commerce. Cashill, who has a Ph.D. in American studies from Purdue University, applied for the fellowship as a way to escape from his "dead-end" job of managing urban housing in Newark, N.J.

Cashill returned to the United States at the close of his fellowship with no job and no long-term goals. But just as Leifer found his answer at home, so did Cashill when he moved to Kansas City to be near family: "I saw an ad for a

copywriter and thought I had nothing to lose."

Vicki Potter, on the other hand, had a more difficult time getting her foot in the door. Leifer's successful departure from orthodoxy in running an agency extended to his hiring methods. Potter, who is now vice president of the firm's health services division, had to wait a year and survive three personal interviews, a staff interview and a written test before she landed the position.

Fourteen employees and 35 clients later, John Leifer, Ltd., drew in \$2 million worth of accounts in 1986.

Leifer relies on his staff's many life experiences in coming up with professional services ads that consumers and clients will believe. For example, nearly all of the firm's health care commercials are filmed in hospitals. Unlike the consumer products industry, "we can't poll a group of 300 people and ask: 'What's your favorite brand of attorney?'" says Leifer. "I have to rely on my staff's creativity in coming up with campaigns sensitive to consumers' needs." ■

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Computerizing With Confidence

part **6**



By Karen Berner

Dave Warren sits down at his personal computer and loads a software program.

"Good morning Dave. What would you like to do today?" flashes an opening message, and a menu of options rolls down the screen. "Design an investment strategy for a new client," Warren types in response. "Fine, can you give me some background?" asks the computer. Warren enters a slew of facts and figures on the client's assets, liabilities and sources of income.

"Now tell me something about the client's values and objectives."

"Well, he is risk-averse, favors real estate, is warm on stocks and cool on bonds," types Warren. "He is worried about retirement and still has one child to put through college."

"Thanks for the help, Dave. I'll get back to you in a few hours."

Warren is able to turn to another project while the computer formulates a comprehensive, well-crafted financial plan outlining specific portfolios that meet the client's criteria.

Hollywood's latest sci-fi offering? No. A real-life scenario. The dialogue with the computer has been dramatized here. But the interaction with the computer is nearly as easy, if not quite as personal, as described above.

Warren, an independent financial planner in Marathon, Fla., uses a \$4,500 software package called Planman from Sterling Wentworth Corporation, Salt Lake City. Obviously, Planman is no ordinary piece of software. Although it can crunch numbers with the best of them, it can also draw conclusions about those numbers with a sophistication far exceeding the power and capabilities of conventional software.

Programs like Planman, known as expert systems, are the commercial fruits of over 30 years of basic research in artificial intelligence—the technology that aims to make computers mimic human vision, speech and thinking.

Expert systems software contains the distillation of years of expert experiences in a particular field. This is done by interviewing the best practitioners and reducing their collective wisdom and skills to rules. The idea is to put expertise at the disposal of novices.

In practice, expert systems act as problem solvers. The user answers

Computers that mimic traits long considered uniquely human are no longer the fantasies of science fiction

writers. Smarter and easier-to-use machines are finding homes in business and industry.



ILLUSTRATIONS: GARY YEALDALL—CYCLOTRON TREE STUDIO

questions, and the system runs the answers against its rules to arrive at conclusions.

Planman, for instance, contains more than 7,500 rules that guide financial planning. You tell it you have a car. The program asks how you use it, and you say, for business. A Planman rule then triggers it to tell you that your car qualifies as a tax deductible expense.

Virtually any body of practical knowledge that can be reduced to rules is a candidate for an expert system. Knowledge that is narrowly focused, specific and stable makes for the best applications. Diagnostic systems that analyze patient symptoms or troubleshoot equipment problems were among the first.

Referring to Planman as an "intelligent aid," Warren says it eliminates hours of drudgery involved in analyzing data. In about five hours, the computer polishes off work that used to take Warren up to 40 hours.

If expert systems are so powerful and productive, why haven't they spread like wildfire?

Until recently, they could not run on

standard computers, including personal computers. Programs had to be written in special computer language and required expensive specialized hardware to run.

However, companies such as Gold Hill Computers (Cambridge, Mass.) now have altered the technology's future with the introduction of low-cost programming tools that permit expert systems to be written and run on powerful PCs.

Explains Robert Touchton, founder of Technology Applications, Inc., in Jacksonville, Fla., one of many start-ups rushing to get expert systems to market: "A year and a half ago, we wouldn't have been in existence. We could not afford an \$80,000 piece of hardware" to run expert programs. That was before Gold Hill's software. Touchton and his team of nine scraped up \$1,200 for the product and are near realizing their dream—marketing a PC expert system that monitors electric power plants.

Such expert products, says Stephen Rush, a professor of decision sciences

Artificial intelligence technology may be able to make experts of all of us, or keep the knowledge of a valued employee after retirement. Even at the beginning of its development, experts can see it will change the way we do business.

Expert systems are software programs that clone the knowledge and skills of experts. You can even build one yourself with a kit and a personal computer.



at George Mason University, in Fairfax, Va., will prove especially valuable to cash-poor businesses in need of specialized expertise.

Rush cites AI Mentor, Inc., a Palo Alto, Calif., firm that just released a \$99 expert system to guide managers in assessing employee performance. It identifies an employee's weaknesses and recommends a specific program of objectives that might motivate him or her to overcome them, just as a human resources specialist would.

At the high end is a \$139,000 program from Palladian Software, Inc., that pinpoints flaws in manufacturing procedures and suggests other, more efficient methods. The Cambridge, Mass., company also markets a \$50,000 financial adviser that draws on the theory of discounted cash flow to help executives evaluate the profitability of alternative investments.

Now that PCs can run expert systems, analysts say that in addition to buying programs off the shelf, companies will also be developing expert systems themselves—a trend that George Mason's Rush believes will accelerate

as fast as sales of plug-in products. He says firms that have proprietary expertise and can write a system to capitalize on it are the ones that will benefit most from the technology.

Consequently, the biggest corporations in the country, especially financial institutions, are spending millions of dollars to develop their in-house experts. The advantage is not merely increased productivity, notes David Shpilberg, head of Coopers & Lybrand's expert systems group. It is improved quality and greater consistency. Nearly every major bank, he says, hopes to put expert systems in the hands of junior officers to both speed up and upgrade processing of loan applications.

But you neither have to be big nor hire an expert systems programmer to go it alone. Consider Exsys, a \$395 design kit for cloning expertise that maker Exsys, Inc. (Albuquerque, N.M.), claims requires no computer skills to operate—just a PC and the ability to answer the program's questions.

In Professor Rush's opinion, Exsys is a must for every small business that has some level of expertise worth automating. The application need not be complicated; for example, it could embrace the criteria used by a telephone operator to refer customer service calls. Designing a small expert system (about 150 rules) with Exsys, he says, just takes "a small group of bright and motivated people."

Exsys President Dustin Huntington says his product is so hot that we "can't keep up with demand." To date, the bulk of sales has been to large companies, but there are scores of small business users as well.

Here's a sampling of how small companies have created expert systems:

- A firm that produces videos for corporations designed a system that prepares price quotes based on customer specifications.

- A brokerage house's system classifies documents according to their sensitivity to help prevent brokers from violating regulations on insider trading.

- A service company's system evaluates the content of incoming customer calls and recommends follow-through procedures.

- An engineering firm's system advises welders on the best materials.

Standard business software that uses simple English commands instead of cumbersome computerese promises to reduce learning time for a new program.



- A realtor created a system that asks potential home buyers about their lifestyles and then suggests what to look for in a house and where.

There are a large number of expert system design kits on the market that run on PCs. Each works in a different way, but most tend to be inexpensive and easy to use in the hands of people who can logically break down the way they do things. For businesses with an application in mind or entrepreneurs seeking to turn knowledge into a commercial product, Exsys' Huntington says to allow from six weeks to three months to complete a prototype system.

Whether you buy or create an expert system, it is bound to spawn profound changes in the way you perceive and manage knowledge. Expert systems take the privacy and mystery out of diagnostic and analytical processes and for the first time make them "an accessible and tangible" resource, claims Milton Clark, an independent consultant who has directed a number of in-house expert systems projects.

"Knowledge processing" will be the catch phrase of the next decade, Clark

Computerizing With Confidence

says, just as information processing is in vogue today. Organizations will come to view knowledge as their most significant and valuable asset. And businesses that learn how to wield that knowledge will be the winners.

Over the next 18 months we should see a steady advance of new artificial intelligence offerings with expert systems leading the charge. Close behind will be another type of artificial intelligence application that gives users the most natural way to interact with conventional software: through their own language.

The potential for natural-language programs to open up personal computing to novices and occasional users has not been lost on established software houses; all are considering how to exploit the technology.

Last year, Lotus Development Corporation moved quickly to acquire a fledgling concern that had developed a natural-language program to help operate Lotus' top-selling 1-2-3 spreadsheet.

The \$150 package was named HAL after the computer gone amok in the film "2001: A Space Odyssey."

The most common use of natural language, however, is for database software. Q&A, from Symantec Corporation, Cupertino, Calif., was among the first database programs for PCs to feature a natural-language facility; it has been a best-seller for nearly two years.

To appreciate Q&A's achievement, you have to know something about the inner design of databases, says Larry R. Harris, president of Artificial Intelligence Corporation, the Waltham, Mass., maker of Intellect, a natural-language program for searching mainframe databases.

Say you wanted to hunt through a database to fetch a list of customers living in zip code area 12345. To do this with a conventional program, you would have to write a small program, and that chore "makes mastering database software a painful and frustrating experience," says Harris.

But if that database were driven by a

natural-language program, you could just type "make a list of all customers with the zip code 12345." The program would translate the sentence into a language that the computer could understand, Harris explains.

Janet Stothers, office manager at Far West Consulting (San Jose, Calif.), used to be the only person in her organization who could coax information out of the company's huge database.

"For years, we struggled to teach everyone how to use Ashton-Tate's dBase software," says Stothers. But employees resisted memorizing even the simplest command routines necessary to operate dBase.

Seeking a better way, Far West, a recruitment service that finds software engineers for ad hoc programming jobs, decided to dump dBase for Q&A.

"I was a skeptic," says Stothers of the program's ability to carry on an English dialogue. "But in no time at all I was convinced that Q&A is the easiest-to-use database system on the market." There is virtually no training required; each employee has the necessary skill—English.

There are no more than a dozen natural-language programs to choose from now, but analysts say the stunning success of Symantec and a few other trailblazers portends bright prospects for the market.

If you cannot use a keyboard, you will have to wait a little longer for computers that recognize and respond to human speech. Rudimentary voice-directed computers are here now, but they have tiny vocabularies (150 words), must be trained to recognize your voice pattern and require maddening pauses between words.

Once we can command computers in spoken sentences, says Artificial Intelligence's Harris, "we'll begin to approach the visions depicted in science fiction" of computers that exhibit lively intelligence, burst into conversation and think on their feet.

At Microsoft Corporation, Redmond, Wash., Chairman Bill Gates says the future lies with what he calls "softer software," that is, software that programs itself based on experience. Says a Microsoft spokesman, "We are actively looking at how artificial intelligence can be applied to our software products to teach them to recognize and improve individual work patterns." ■

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Your Investment Strategy After Tax Reform

By Joan C. Szabo

Tax reform is reshaping the investment landscape, and that means investors will be leaving their shelters to wander in fields made more open by lower marginal tax rates.

The major beneficiaries of the sweeping new law are investments that maintain a tax-favored status. For example, stocks and bonds come out ahead because of the law's lower tax rates.

Investments stripped of their tax advantages include a number of once popular shelters that generate huge paper losses. The new law greatly limits an investor's ability to use such losses to reduce ordinary taxable income. It does this by making losses from "passive" investments (those in which the individual is not regularly involved in the management) deductible only against "passive" income. Limited partnerships for real estate projects are prime examples.

"The emphasis now is more on income generation and less on sheltering," says accountant Howard Safer, an executive committee member of the American Institute of Certified Public Accountants' personal financial planning division.

The shift is taking place, experts say, because tax reform's lower rates allow individuals to keep more of what they earn from profitable investments. Assuming Congress allows the rates to become fully effective in 1988, the new law will trim the 15-bracket system to three: 15, 28 and—for a large number of higher income people—33 percent. This year taxpayers face five brackets, ranging from 11 to 38.5 percent. Under the old law, the top rate was 50 percent.

"At a top rate of 33 percent, rather than 50 percent, an investor will keep 67 cents on the dollar instead of only 50 cents, which means interest and dividend returns are worth more to the investor," says Ben E. Laden, chief economist for T. Rowe Price in Baltimore.

Eliminating the special tax treatment for long-term capital gains, often said to be the worst provision for investors, also should push investors toward income-generating investments.

In this transitional year, the top capital gains rate is 28 percent. So profits taken this year still have an edge over ordinary income. But starting in 1988, the top capital gains rate—20 percent

Municipal bonds are among the few shelters left under tax reform, experts say. Even though the law places some new limits on the amount and kinds

of tax-exempt municipals that can be issued, the standard municipal bond used for public purposes such as road construction remains tax-free.



PHOTO: LES MOORE—UNIPHOTO

from 1981 through 1986—will be as high as 33 percent for some taxpayers.

"In the past, many investors believed that long-term capital gains constituted the land of milk and honey. Once the special capital gains tax is eliminated, income becomes as important as growth," says Stuart Kessler, senior tax partner with the New York accounting firm of Goldstein, Golub, Kessler & Company.

This means, say some experts, that individuals who purchased low-dividend growth stocks in the past will be less likely to do so under tax reform, because the tax incentive to take on higher levels of risk is gone. As a result, higher-paying dividend securities may become more alluring.

Many companies are already conscious of this fact and are starting to make adjustments, says Laden. As an example, he cites Teledyne, a Los Angeles-based electronics, aviation and industrial products company, which recently declared its first-ever quarterly cash dividend.

In the past, earnings were plowed back into many companies. If higher

dividends are paid to stockholders, some companies will have to borrow more to grow, experts argue. They also predict that elimination of the capital gains tax differential will lead to more short-term stock trading.

But some experts argue that growth is still worth more than income for individuals because market appreciation is not taxed until the investor sells the stock. "In contrast, a portion of every dividend check is immediately taken away in taxes," says *The Babson Staff Letter*, published by David L. Babson & Company, an investment counseling firm.

In addition, tax reform abolishes the yearly exclusion for the first \$100 of stock dividends received by individuals and \$200 received by couples.

What kind of industry stocks are likely to fare best under tax reform? "Many of the beneficiaries will be service companies, which receive the benefits of lower rates but aren't hurt by the loss of the investment tax credit," says Laden. Tax reform retroactively repealed the credit for equipment

Tax reform has taken away some shelters, and experts expect investors to pay more attention to income generation.

placed in service after Jan. 1, 1986.

Some of the potential winners, experts say, are companies in industries such as retailing, broadcasting, advertising and household products. Potential losers are capital-intensive manufacturing companies heavily dependent on the investment tax credit and pre-reform depreciation schedules.

Overall, the net effect of tax reform on the stock market is positive, say experts. Laden, for example, believes it is a factor in the market's recent upswing. Robert Genetski, senior economist with Harris Bank in Chicago, agrees: "In our analysis of the stock market, we think it will be higher as a result of tax reform."

Bonds also stand out as beneficiaries. "Among fixed-income securities, municipal bonds should benefit the most in the future, but corporate bond values may also rise," says a recent report from Salomon Brothers, an international finance and research firm. Municipal bonds are issued by state and local governments to raise money for the construction of roads, office buildings and other public needs. Interest payments on the bonds are generally exempt from federal taxation.

"Municipals are one of the few shelters left," says Judith Ann Jacobson, a federal tax law specialist and partner with the New York law firm of Morrison, Cohen & Singer. Even though lower income tax rates rub some of the shine off municipal bonds, they still remain attractive for investors, experts say. Even with a 28 percent tax rate, a municipal paying 7 percent will bring as many after-tax dollars as a taxable bond paying 9.72 percent.

Tax reform does place some new limits on the amount and kinds of tax-exempt municipal bonds that can be issued. But the standard municipal bond used for public purposes such as building a water and sewer system remains tax-free. However, interest earned on certain kinds of bonds issued after Aug. 7, 1986, could subject some individuals to a tougher alternative minimum tax. The aim of the AMT is to prevent the very wealthy from drastically cutting their tax liability by sheltering a huge amount of income.

The alternative minimum taxable in-

Under tax reform, if an investor has a "working interest" in an oil and gas property, such as this drilling operation, passive losses can still be

deducted against ordinary taxable income as long as the investor assumes unlimited liability.



PHOTO: DAVID WILKIE

come is calculated by adding certain tax preference items, such as interest income from some municipal bonds, to adjusted gross income. Then an exclusion of up to \$40,000, together with a limited number of deductions, is subtracted from the adjusted gross income. If 21 percent of that sum exceeds what you would owe by figuring your tax liability under the regular method, you owe the higher AMT.

"You must be receiving a huge amount of money from municipal bonds before you have to worry about the tougher tax—it will affect only the very wealthiest investors," says John Andrews, author of a new handbook on municipal bonds entitled *Buying Municipal Bonds*.

In selecting your bonds, Andrews recommends you purchase at least four or five different ones with top-tier ratings. "They should have at least one, and preferably two, capital As in their ratings," he says.

In addition to municipals, the new law leaves a few tax deferral investments in place. One example is life insurance. "Under tax reform, life insur-

ance emerges as a winner because the inside buildup is still not taxable and you can borrow from the contract tax-free," says Charles Finn, vice president of CIGNA's Individual Financial Services Company.

Single-premium policies, in particular, are attracting a great deal of interest among investors, the experts say. As the name implies, you pay a one-time premium of \$5,000 and up for an investment fund and permanent life insurance. Most of the premium goes into the fund, and the earnings build up tax-deferred. With a single-premium whole life policy, insurers guarantee a fixed interest rate on your funds for a specified period. With the variable type, the rate of return depends on the performance of insurance-company-sponsored mutual funds in which you decide to invest.

If you want to make use of the policy's funds while you are living, you can borrow the earnings at no tax cost. In general you will pay from 2 to 4 percent a year on funds borrowed from the principal. Borrowing, however, reduces

Your Investment Strategy After Tax Reform

the death benefit. If you ever decide to let the policy lapse, you must pay income tax on the earnings accumulated over the years.

Another remaining tax deferral investment is an annuity. You can purchase a single-premium annuity for \$5,000 or more or make periodic payments to a flexible premium annuity.

An annuity is essentially a retirement-savings plan where all dividends and capital gains are allowed to compound in your account without any current tax liability.

Annuities are available with fixed or variable rates. With a variable annuity, investors can choose and periodically change how the funds are distributed among a number of stock, bond and money-market funds. The annuity holder pays taxes only when money is withdrawn, at which time it is treated as regular income. Unlike life insurance, taxes are paid on any borrowed money.

Before purchasing an annuity or life insurance policy from an insurance company, determine the soundness of the insurer. One way to do this is to use *Best's Insurance Reports*, an annual directory that rates companies on their financial strength.

The new law effectively demolishes most tax shelters that generate huge paper losses used in the past to offset an individual's regular taxable income. Starting in 1987, losses from passive investments entered into after the bill was signed into law will be deductible only against passive income. Losses on passive investments made before enactment (Oct. 22, 1986) will be partly deductible against nonpassive income until 1991.

Even so, the law contains a few exceptions. One is for rental real estate owners with adjusted gross incomes of less than \$100,000. If they own at least 10 percent of the rental property and actively manage it, they can offset up to \$25,000 of losses against regular income. This decreases \$1 for every \$2 above that income level and disappears for individuals with AGIs over \$150,000. In addition, losses from oil and gas properties in which the investor has a "working interest" can still be deducted against regular taxable income, as long as the investor assumes unlimited liability.

The new passive loss rule and a number of other changes hit real estate investing particularly hard. For example, tax reform lengthens the depreciation

period from 19 to 27½ years for residential rental property and to 31½ for non-residential property. The result is smaller depreciation deductions for investors.

For those with vacation homes, tax reform also creates problems. Under the old law, second-home owners usually came out ahead if the second home qualified as a rental property. It was

"In the past, many investors believed that long-term capital gains constituted the land of milk and honey. Once the special capital gains tax is eliminated, income becomes as important as growth."

—STUART KESSLER,
SENIOR PARTNER WITH
THE ACCOUNTING FIRM
OF GOLDSTEIN, GOLUB,
KESSLER & COMPANY

possible to write off more expenses than the amount of rental income received if personal use of the home was limited to 14 days or 10 percent of the number of days the home was rented out during the year.

If personal use was more than 14 days, the property was considered a personal residence and rental expenses were generally limited to the amount of rental income. Mortgage interest and property taxes could be deducted regardless of whether the vacation home was classified as a residence.

This year higher-bracket taxpayers will not be able to claim more deductions than the income generated on rental property. But if the owner spends more than 14 days in the home, it may qualify as a second home and the owner may still have full deductibility of mortgage interest and property taxes. (Under tax reform, mortgage interest and property taxes are deductible only on first and second homes).

In the place of highly leveraged limited partnerships designed more to avoid taxes than to make money, a wave of income-producing ones are emerging.

Each should be carefully examined as part of a total investment portfolio, experts say.

Another investment area revamped by tax reform is income shifting to children. The new law essentially takes away much of the incentive to undertake such transfers by taxing net unearned income for children under 14 at the parents' top marginal rate.

An exception is provided for the first \$500 of net taxable, unearned income, which is taxed at the child's rate. In addition, a child is allowed to use up to \$500 of his or her standard deduction against unearned income. So the law allows up to \$1,000 of unearned income to be shifted to a child. Once a child reaches 14, he is taxed at his own individual rate.

In the past, it was possible to set up a trust, such as a Clifford Trust, to transfer cash or assets to children. The earnings were taxed at the child's lower rate rather than the parents' higher one. Under tax reform, income from a Clifford trust will be taxed at the parents' rate if the transfer was made after March 1, 1986. For trusts set up before that date, income over \$1,000 is taxed at the parents' rate if the child is under 14.

Because of all the changes, experts recommend that savings for children be funneled into investments that will grow tax-deferred until the youngster reaches age 14. "Today, we have to switch by giving children under 14 assets that will appreciate instead of those that produce income," says accountant Kessler. Recommended investments include Series EE savings bonds, tax-exempt municipal bonds and growth equities. After the child reaches 14, these deferred investments can be sold or collected.

But investors should not select investments purely because of tax law changes or immediate tax consequences, say the experts. There is no substitute for an investment strategy that takes into account your basic financial objectives.

Says Mary Malgoire of the Bethesda, Md., financial planning firm of Malgoire & Drucker and president of the National Association of Personal Financial Planners: "In today's changing tax environment, it pays to stick with a long-run investment strategy over what may be a short-term tax change." ■

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Franchising Education

By Ripley Hotch

Education has always been the key, in most Americans' minds, to getting ahead. Nervousness about whether they, or their children, are well prepared for life's challenges has encouraged consumers to try education to remedy reading problems, train for new careers, control their appetites, bone up for college SATs or hone their sales techniques.

Franchisors have been in the education market for a long time. Familiar names like Arthur Murray, John Powers Modeling and Barbizon International, however, are now sharing the broad education field with franchises in children's exercise, remediation, personal computer instruction, time management, salesmanship—even entry-level training for bank tellers.

"With all the media exposure about declining test scores and our decline as an international leader, there's a lot of awareness of the problem of not getting a proper education," says Michael Ward, franchise director of Huntington Learning Centers, Inc., one of the largest of the education franchisors.

Although on the surface it might seem strange for franchisors to step into the breach, education and training franchises—for children and adults alike—are doing very well.

"I think we're barely scratching the surface," says Gene Montgomery, president of Sylvan Learning Corporation. "I am fond of saying we're an infant company, even though with about 265 franchises open we're larger than anyone else in the business. The industry is in its infancy, too."

First into the field was The Reading Game, but that company has announced that it is no longer franchising. That leaves Sylvan and Huntington as the principal marketers of remedial training.

The primary audience for both franchisors is children who have some problem keeping up in school or in managing good study habits. "We're working with students who do not need special education, but have missed pieces of the puzzle," says Huntington's Ward. "Their parents may have thought they would grow out of the problem, but it just gets bigger, and they fall farther behind."

Those students he says, need self-

Gordon Findlay, the Houston franchisee of Sylvan Learning Centers, has a good working relationship with the public schools

whose work he supplements. The result: His business is expanding even in hard economic times.



PHOTO: ROBB KENDRICK

confidence and reinforcement they are not getting from the regular academic environment. "We have children who come up six grade levels in 60 hours of sessions," Ward adds.

Such success is accomplished, says Sylvan's Montgomery, because the teacher-student ratio is so good. There are never more than three students to a teacher in either Huntington or Sylvan remediation classes. The education franchises never have a problem attracting teachers, he says, because of that favorable ratio and because the facilities are first rate: "We pay good wages, it's a safe professional environment, and the room has \$25,000 worth of materials and equipment. It's a teacher's dream."

Still, neither franchise considers itself in competition with the regular school system. Rather, they are complements to public instruction and often work with school systems to reach potential clients. Gordon Findlay, a Sylvan franchisee in Houston, says that about a third of his business is now generated by referrals from the school system.

"The program delivers," he says. "I've been associated with a lot of businesses, and I quite rarely come in contact with one where the customer satisfaction is as high as it is in this one."

Both Sylvan and Huntington are seeking ways to expand into the adult market in order to use their facilities better. "Writing will be our most serious attempt to have something in the adult market," says Montgomery. He also sees the possibility of developing that program into business or executive writing.

SMI International has an even broader mandate than the remediation franchises. This huge franchisor—about 2,500 franchisees—teaches motivation, goal-setting and time management. It even has programs for children.

Much of what SMI does, says Jim Sirbasku, president of the Waco, Tex., company, is based on the insights of Dale Carnegie. "We love Dale Carnegie because he was a pioneer in the development of an idea that became a business," says Sirbasku. But, he adds, SMI does more than seminars. It has tried to

Education and training franchisors are doing well as consumers step outside ordinary channels to improve their minds or employment prospects.

systematize and put in the hands of its franchisees a complete program that begins with tapes and manuals, goes through seminars, creates a plan of action and follow-up. "We call it positive brainwashing," he says.

Apparently, customers can't get enough. SMI expects eventually to have 4,000 franchisees—almost double the current number. And customers are developed even by competitors. "Dale Carnegie graduates are great prospects for us," he says. The potential customer is "anyone who believes in improving himself and will bother to take a course or read a book."

SMI makes its money from sales of materials to franchisees. Their investment is \$20,000, and the franchisor charges no royalty or advertising fee. Furthermore, says Sirbasku, the franchise fee buys the franchisee enough materials to make his or her money back.

Other education franchises specialize in practical training for careers—anything from travel agent schools to truck driving schools, sanitation and maintenance schools and mobile home repair schools.

One of the more unusual is Teller Training Institute, which sells franchises that train bank tellers.

The 15-year-old Seattle company has invested its future in service to the banking industry. The turnover rate in banking is 36 percent a year, mostly in entry-level positions, according to the American Bankers Association. The ABA attributes the high turnover to lack of training.

Banks do not want to spend the \$2,000 it costs to train a teller when they are faced with such a rate, says Jeff Pinorini, director of franchise sales for Teller Training Institute. On the other hand, when a potential employee is willing to spend his or her own money to go through a training program, the banks are not only saved the money, but assured of a much more committed employee, he says.

Nor does it cost the student that much. "Our students are young adults, 18-25, probably working in a nonprofessional industry, with limited background but who realize that they would like to move up," says Pinorini.

"What's nice about banking school is it's for a relatively short period of time—four weeks—for \$795."

Franchisees can buy a TTI franchise for \$20,000-\$30,000, and banking experience is not required.

Education franchises are not a sure thing; Pater Tutor, for example, which specialized in teaching the use of personal computers to businesses, has ceased selling franchises.

But the Commerce Department estimates that educational services outlets are expected to go from 8,224 in 1986 to 9,104 in 1987. Total sales are expected to rise to \$851 million this year from \$746 million in 1986.

Education lends itself to the service concepts on which franchising is built. The investment is minimal, and yet, as SMI's Sirbasku says, it "allows people to go out and create employment." ■

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Coming Soon: Crackdown On Hiring Illegal Aliens

By Roger Thompson

All employers must determine that every person hired since Nov. 6, 1986, is eligible to work in the United States. The verification process will

require employers to fill out and sign the bottom half of an INS form similar to the one below. Employees will fill out the top part.

Address (Street Name and Number) _____ City _____ State _____ Zip Code _____

EMPLOYER REVIEW AND VERIFICATION: (To be completed and signed by employer.)

Examine one document from those in List A and check the correct box, or examine one document from List B and one from List C and check the correct boxes. Provide the **Document Identification Number** and **Expiration Date**, (the last two lines of each column) for the document checked in that column.

List A
Identity and Employment Eligibility

☐ United States Passport
☐ Certificate of United States Citizenship
☐ Certificate of Naturalization
☐ Unexpired foreign passport with attached Employment Authorization
☐ Alien Registration Card with photograph

List B
Identity

☒ A State issued driver's license or I.D. card with a photograph, or information, including name, sex, date of birth, height, weight, and color of eyes. (Specify State: _____)
☐ U.S. Military Card
☐ Other (Specify type of form and issuing authority: _____)

List C
Employment Eligibility

☒ Original Social Security Number Card (other than a card stating it is not valid for employment)
☐ A birth certificate issued by State, county, or municipal authority bearing a seal or other certification
☐ Unexpired INS Employment Authorization. Specify form # _____

Document Identification

Expiration Date (if any)

CERTIFICATION: I attest, under penalty of perjury, that I have examined the documents presented by the above individual, that they appear to be genuine, relate to the individual named, and that the individual, to the best of my knowledge, is authorized to work in the United States.

Signature _____ Name (Print or Type) _____ Title _____
Address _____ Date _____

ILLUSTRATION: JOHN PACE

Sen. Alan K. Simpson spent five years fighting to enact a law banning illegal aliens from the workplace, culminating in a tough new immigration bill signed by President Reagan last November. Five months later, the Wyoming Republican says the employers of America still don't understand what is about to hit them: "They're asleep at the wheel."

But employers are in for a rude awakening—and soon. Enforcement of the Immigration Reform and Control Act of 1986 begins June 1, although at first violators will receive only warnings.

"This law is the most massive imposition of government regulation on employers and employees in decades, maybe ever," says Lucas Guttentag, director of the Immigration and Aliens' Rights Task Force of the American Civil Liberties Union.

It already is causing massive confusion. Fearing sanctions, employers in the Washington area reportedly have fired hundreds of Hispanics, primarily Salvadorans, from hotel, restaurant and construction jobs. The law, however, does not penalize employers for retaining illegal aliens hired before Nov. 6, 1986, the day Reagan signed it. Only those hired after that date will be required to meet the new documentation standards, which apply to American citizens as well as aliens.

For employers, the documentation requirements will trigger a paper work avalanche costing an estimated \$675 million a year to manage, says Charles Cadwell, deputy chief counsel for advocacy of the Small Business Administration.

Alternatively, employers may balk at the law's paper work requirements and simply ignore them. "It's going to be

like prohibition," predicts an administration official who asked not to be identified.

Perhaps. But Sen. Simpson isn't convinced that the law is anywhere near as onerous for employers as critics allege. Says he: "The burdens on the employer, in my mind, are minimal."

Employers will begin to weigh in with their own opinions later this month when the Immigration and Naturalization Service publishes final regulations to enforce the law.

The law essentially does four things:

- Makes it a federal crime to hire illegal aliens;
- Creates an amnesty program to grant legal status to aliens in the country since Jan. 1, 1982;
- Provides legal status to foreign farm workers who worked in the fields at least 90 days between May, 1985, and May, 1986;

"This law is the most massive imposition of government regulation on employers and employees in decades, maybe ever."

For the first time, American citizens as well as aliens must show employers proper identification and work authorization documents to be hired.



PHOTO: STACY FICE—UNIMOTO

● Imposes new penalties on employers who discriminate against workers on the basis of national origin or citizenship.

The crackdown on hiring illegal aliens actually will affect only a small minority of the nation's 4.4 million employers, says Simpson. "My hunch is that the great majority of employers do not hire illegal, undocumented persons, and they have been very careful over the years not to do so."

The fact remains that upwards of 4 million illegal aliens have found work in the United States. Getting them off the payrolls was the motivating force behind passage of the new law.

Implementing the law will change hiring procedures of every employer. Henceforth, every employee must provide documented proof of identity and eligibility to work and fill out a form, designated as I-9 by INS, attesting, un-

der penalty of perjury, that the information provided is truthful.

Some documents establish both identity and work eligibility: a U.S. passport, a certificate of U.S. citizenship or naturalization and an unexpired foreign passport carrying the appropriate INS work permit stamp.

As an alternative, a job applicant must submit one document establishing identity and another establishing work authorization. The most common identification document is a driver's license with a photo. Applicants may also use an original identity document issued by any state, a notice of discharge from the U.S. military or a document showing active duty in the military. The work authorization document may be a Social Security card or birth certificate from any state or a State Department document confirming birth abroad of a U.S. citizen.

Employers must list the documents inspected and sign the I-9 form (see illustration), indicating that the documents "appear to be genuine." "If you [an employer] believe it's a valid document, then you have met your requirements under the law," says Mark W. Everson, INS executive associate commissioner (see page 34). Drafted INS regulations recommended that employers make photocopies of the documents "for the purpose of showing good faith compliance with the verification process."

Jeff Prince, a senior director of the National Restaurant Association, calls this "defensive bookkeeping." Although photocopying is optional, "an employer will have to assume the cost and expend the time to make photocopies to prove he is innocent," says Prince.

The law provides stiff penalties for those who fail to comply. Employers who hire illegal workers can be fined between \$250 and \$10,000 for each alien and sent to jail for up to six months, depending upon the number of prior violations. There are no exceptions. This provision covers all employers—from General Motors to suburban yuppies with full-time baby-sitters.

To guard against wholesale discrimination against aliens who are eligible to work, the law provides antidiscrimina-

Gideon Epstein, a Justice Department forensic documents analyst, checks foreign passports for forgery, which may increase under the new law.



PHOTO: T. MICHAEL KEZA

tion penalties that apply to all employers with at least four employees. Fines range up to \$2,000 for each individual discriminated against.

Employers who don't hire illegal aliens and don't discriminate still can get slapped with a fine up to \$1,000 for each instance in which they fail to file and retain the I-9 form for each new employee. Employers must retain these records for three years, and, in any event, may not dispose of them until at least one year after an employee leaves.

Critics of employer sanctions "are overlooking the responsibility of the employee here," says Simpson. "For the first time a job applicant can be fined or jailed for providing fake documents."

INS plans to target enforcement activities on businesses that have a history of hiring illegal aliens. The agency

MANAGING YOUR BUSINESS

Mark W. Everson, INS executive associate commissioner, says enforcement of the new immigration law rests primarily with employers.

How Will The New Law Affect You?

Mark W. Everson, Immigration and Naturalization Service executive associate commissioner, responded to our questions about implementation of the Immigration Reform and Control Act of 1986.

Are there any employers who are not affected by the new law?

The law makes no exceptions. All employers have to comply with the legislation. Anytime someone changes jobs after the date of enactment—Nov. 6, 1986—the employer is required to develop the right documentation indicating that he or she has taken certain steps to verify the individual's eligibility to work.

How does an employer do that?

He has to examine a document that shows identity and establishes that the individual is authorized to work. A passport does both. Or he can examine a combination of documentation showing identity and authorization to work.

A document establishing identity would commonly be a driver's license with a picture. That document in combination with, say, a Social Security card, would indicate eligibility to work.

Do illegal aliens have a right to either a U.S. driver's license or social security card?

Standards for issuance of a driver's license vary by state. But many illegal aliens do have Social Security cards that they have obtained fraudulently.

Do employers have to verify driver's licenses and Social Security cards?

The standard of the statute is that the document must "reasonably appear on its face to be genuine." So it's a judgment call on the part of the employer.

Are employers required to report to INS any alien who does not qualify for work or who submits fraudulent documents?

There is no obligation on the part of the employer to do other than examine the documentation and to employ only those individuals who the employer believes meet the qualifications.

What happens to illegal aliens who were employed Nov. 6, 1986, but who won't qualify for legalization?

When they want to change jobs, they probably will have difficulty securing



PHOTO: T. MICHAEL REZA

employment because the employer will quickly determine that the individual is not authorized to work. We expect that these people, over time, may very well return to their countries of origin.

Employers have no obligation to fire those people who will not qualify for legalization and who were on the payroll before November 6?

Correct. The employers are not subject to penalties, but the employees are still in violation of the law. For instance, if we come into a company and determine it has a large number of illegal aliens and they had all been hired before November 6, there would be no legal ramifications for the employer. But we might initiate proceedings against the employees themselves.

Will aliens who apply for the legalization program be able to work while they wait months for the outcome?

Right now, employers should understand that there will be no inspection of documentation prior to June 1, when sanctions begin. An employer would want to encourage those coming into his employ now who indicate that they qualify for the legalization program to make early application when the application period starts May 5.

Once someone has entered the legalization process and there has been an initial determination of eligibility, the

INS is going to issue documents that will authorize the alien to work, pending final review of his file.

Will this new law be time-consuming or confusing for employers?

We believe the process will be relatively simple. We are trying to make it as clean and as easy as possible. But I'm sure that initially it will take some adjusting, as is the case with any new law.

Are you asking employers to be policemen?

Compliance, as with any law, is going to be largely voluntary in nature. We are strongly encouraging employers to follow the law of the land, which for the first time has specifically stated that they should not be employing those who are unauthorized to work. But it is very much a self-policing mechanism.

How do you establish a priority for investigating compliance?

You target those employers who have histories of employing unauthorized workers. There are pockets of industries throughout the country that have such histories. Restaurants and light industry are frequently mentioned, and, in some areas, construction.

Is the law enforceable?

Yes. First of all, we think it is important that a national policy has been stated to employ only those who have been legally authorized to work. It's the first time that statement has been made. We think most employers will comply.

Will INS officers be making unannounced inspections of employer records?

The statute clearly provides that documentation be "available for inspection." We will develop a reasonable standard as to how quickly documents need be produced.

Who will enforce the antidiscrimination provisions of the law?

The Justice Department is in the process of establishing an Office of the Special Counsel for Immigration-Related Unfair Employment Practices to review claims of discriminatory conduct.

Will employers walk a thin line between not hiring illegals and not discriminating?

I don't think so, because the documentation standards are quite explicit. All new employees, no matter how they look or where they are from, must have proper documentation. The same steps apply to everyone, so there is no reason for discrimination.

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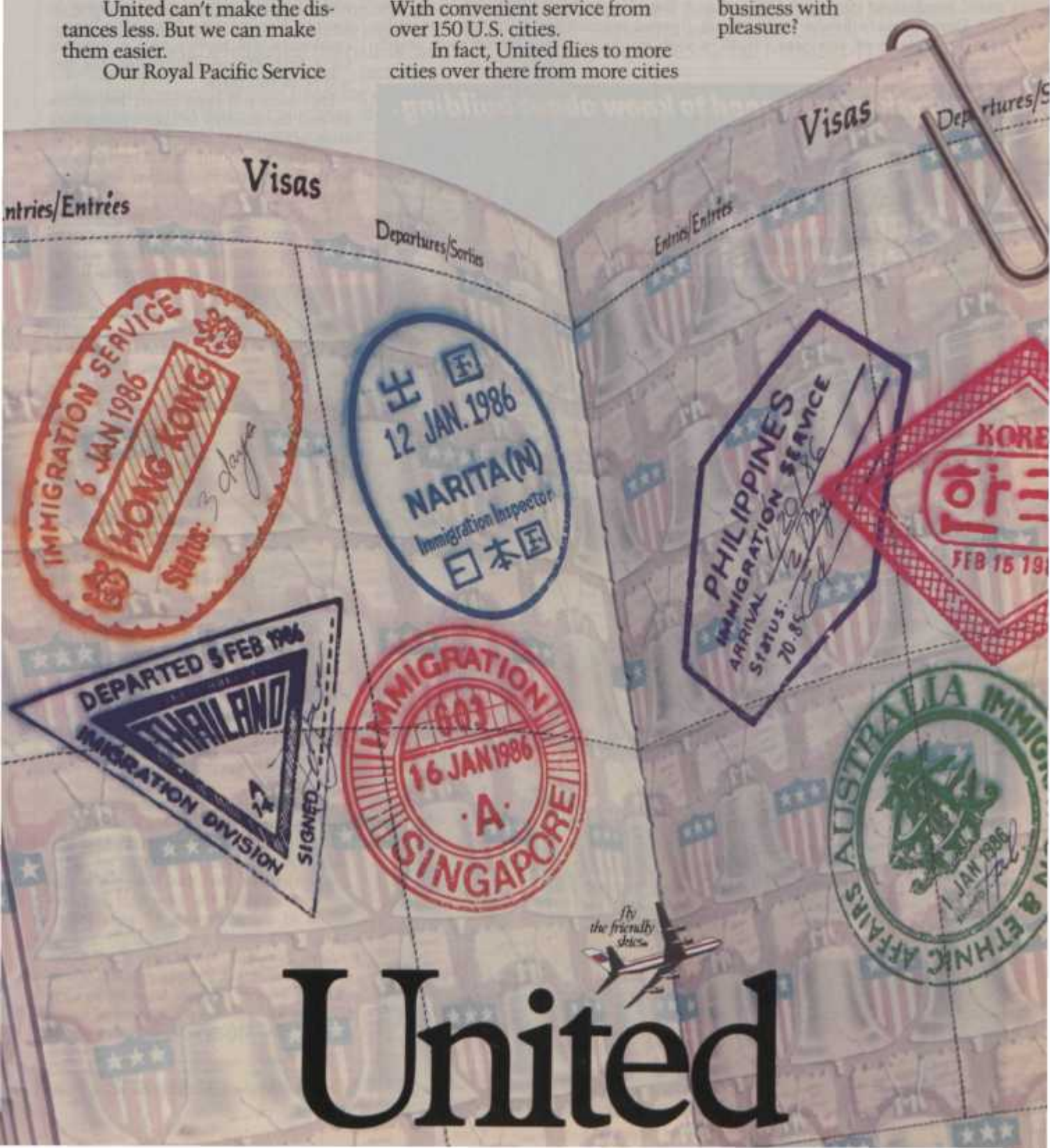
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Coming Soon: Crackdown On Hiring Illegal Aliens

will add 932 new investigators by the end of fiscal year 1988 to enforce the employer sanctions provisions.

The law gives the agency unprecedented authority to demand immediate inspection of employers' records. Proposed regulations state that INS or Labor Department officials could "walk into any place of business, flash a

badge and start looking through files," says Muzaffar Chishti, head of the immigration project at the International Ladies' Garment Workers Union.

The union spearheaded a coalition of 28 Hispanic, labor, religious and civil liberties groups in objecting to proposed regulations, including inspection of employers' records without search

warrants, subpoenas or advance notice.

While the law technically took effect November 6, it provided a six-month public education period during which no enforcement activities take place. INS plans to send every employer a package with detailed information on how to comply. For one year, beginning June 1, employers will receive only a warning for a first offense. Thereafter, the law will be in full force.

INS soon will open about 100 offices around the country to take applications from aliens who want to apply for legalization under the law. They may do so during a one-year period beginning May 5.

The agency expects about 4 million applications, representing a majority of the approximately 7 million illegal aliens it estimates are currently living in the United States.

Immigration lawyers maintain that adequate documentation may be a problem for many applicants, whether American citizens or aliens. "Most people don't carry around a passport, a birth certificate or even a Social Security card," says Mary E. Pivec, a labor and immigration specialist with the Baltimore firm of Frank, Bernstein, Conaway & Goldman. In fact, Sen. Simpson acknowledged that he recently had to write for a replacement for his own Social Security card.

INS has proposed giving workers 24 hours after being hired to produce the necessary documents. Even so, Pivec says many employers who hire large numbers of unskilled workers may not be able to fill vacancies in a timely fashion because applicants cannot immediately produce the required documents.

"The response I'm getting from employers is they don't know how they are going to get the documentation to put people on the payroll," says Pivec.

Such delays will discourage compliance. "The problem will be with small or medium-sized employers who see this as an extra administrative cost and have to weigh the cost against the practical requirements of doing business," says Pivec. "A lot may decide not to comply."

Sen. Simpson maintains that widespread, voluntary compliance will work: "The employer doesn't have to do anything at all, just keep a record of documents. Now what's so oppressive about that?" ■

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New Directions In Telecommunications

By Maribeth Harper

More than three years after the fact, some results of the dismemberment of American Telephone & Telegraph still dominate the telecommunications choices of U.S. businesses.

In the months following the split of AT&T into 22 operating companies under the supervision of seven regional holding companies, acquisition of telephone service became chaotic. Small business users, unaccustomed to having choices, floundered as AT&T and the regional holding companies attempted to gain strongholds in their newly defined fields.

Two years later, the industry was in the throes of merger mania. During 1986, US Telecom and GTE Sprint Communications Corporation joined to form the third largest long distance service company, US Sprint. MCI Communications Corporation purchased Satellite Business Systems to become second largest after AT&T. And IBM bought 16 percent of MCI. Many small resellers of long distance services either merged or failed in the face of growing competition.

Now, some of the initial confusion has subsided. Although some users and analysts will beg to differ, Bell companies report customer satisfaction has reached all-time highs. Long distance prices have fallen, local telephone companies are becoming more small business oriented, and the truly big players in the communications field may soon be unleashed to provide even more competition and a wider variety of choices for small users. With so much good news, why do consumer advocates and small business representatives shudder with disdain at the word "divestiture"?

A primary concern is the post-divestiture increase in local rates. "We're finding that most small businesses spend more on local bills than they save on long distance bills," says Eugene Kimmelman, director of legislative affairs for Consumer Federation of America.

According to the Bureau of Labor Statistics, local rates rose 10.2 percent and long distance costs fell only 6.9 per-

To stay abreast of the competition, long distance companies are racing to install nationwide fiber optic networks. The thin strands of glass, no larger than the diameter of a

human hair, transmit voice, video and data on beams of light. Each strand can carry 8,000 calls versus 48 by copper wire.

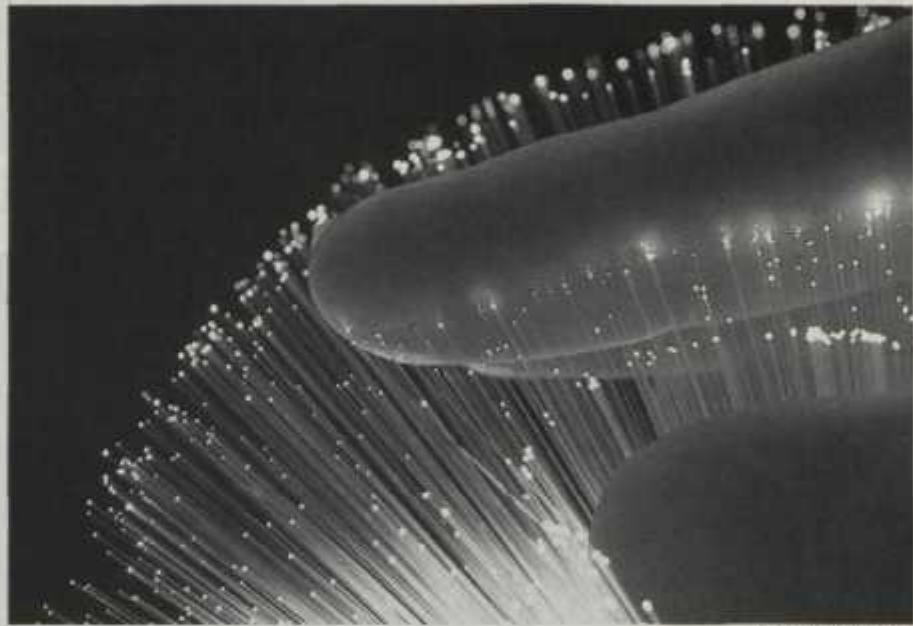


PHOTO: JEFF ZARUBA—FOCUS

cent last year. If small companies have a number of lines, subscriber charges of \$6 per month per line will add up to significant cost increases, Kimmelman says.

If small businesses call primarily within a state to branch offices, for example, they will pay an average 4 percent more than they did before divestiture. And if small companies use private lines that do not make use of the switched telephone network, they will experience substantial increases in costs, he adds.

"Attention must be paid to the substantial drop in long distance charges," Jim Atkinson, spokesman for Northwestern Bell, says. "You don't find many small businesses that don't use long distance. If they say they don't, they're not telling the truth."

Moreover, it would seem that new technology—the most highly touted benefit of the breakup—is low on the list of priorities among small business people as long as the basic telephone is functioning.

Beverly Hewitt, a product manager for Mountain Bell, says company re-

search indicates that technology is a minimum of five years ahead of small business' needs. "Small businesses tend to be more traditional than large companies, and they don't view themselves as telecommunications-dependent," she says. "They don't move with change very quickly, and they often don't realize how strategic the telephone can be to them."

Hewitt cites the example of a real estate agent who called to arrange for installation of one line. He was trying to save money, but "didn't realize that if he were on the phone, he could not receive incoming calls. He would have lost business."

August Blegen, a telecommunications specialist who works with small companies, remarks that although his clients are "much better off" as a result of divestiture, "they still have a tremendous learning process to undergo." They "probably look at the fact that they are getting multiple bills and curse deregulation, not realizing all the other advantages it has given them."

Maribeth Harper is the former Washington editor of Telephony magazine. She is now a free-lance writer based in Silver Spring, Md.

The AT&T breakup has created headaches for business, but new technology and competition are bringing real advantages—especially for small business.

Perhaps the biggest boon to large and small business users alike has been the sharp decrease in long distance costs. Charges for long distance calling over AT&T lines have fallen 30 percent since 1984, reports the Federal Communications Commission, which regulates the telecommunications industry.

In addition, business users now can choose among a number of high quality long distance vendors. As part of the breakup agreement, the Bell companies were ordered to provide all customers with the same easy access for long distance service. They dial 1, an area code and a seven-digit phone number regardless of the carrier they use. This process, known as "equal access," has eliminated cumbersome access codes for connections through AT&T's competitors.

Equal access is pushing long distance companies to distinguish themselves as technology leaders. Each is investing heavily to replace copper transmission lines with fiber optic networks that carry light-wave signals of voice and data over thin strands of glass.

Fiber optic networks are far more efficient and quieter than copper lines. As MCI spokesman John Houser explains: "Copper wire the size of a man's wrist can carry 2,000 circuits [conversations]. But a pair of fiber optic cables the size of a human hair can handle 6,000 simultaneous conversations." There are usually up to 24 pairs in a cable, Houser says.

MCI and US Sprint are leading the race. MCI plans to have 12,000 route miles of fiber by year end. The company now has 6,000 fiber miles in its total 30,000-mile network, says Houser. The cost during 1987 is estimated at \$800 million. US Sprint now has 16,000 miles of fiber optic cable and is working toward a goal of 23,000 miles by the end of 1987, reports Nancy Reder, the firm's manager of media relations. AT&T has announced a goal of 10,200 miles and had completed 5,200 last November.

Nor are the regional holding companies standing still. With equal access established, they now plan to concentrate on serving small businesses with four or fewer lines.

With 16,000 miles already completed, US Sprint rushes to complete its 23,000-mile fiber optic network by year's end at a cost of \$3 billion. When

the network is completed, Sprint will have the capacity to handle 50 percent of the nation's long distance telephone traffic.



PHOTO: US SPRINT

The most progressive service goes by the name of centrex. The official designation for a centrex service varies slightly from region to region, but the basic concept and offerings are generally the same: call hold, call transfer and three-way conferencing accessed through a touch tone phone connected to a computerized switch in the telephone company's central office. Optional features include call waiting, call forwarding,

speed calling, distinctive ringing, automatic call-back and others.

Centrex has been especially popular with small businesses because it requires no capital outlay for on-site equipment other than telephones. All maintenance is handled by the telephone company.

But the service has not changed much in 20 years; the companies now aim to change that. Centrex, agree ana-

MANAGING YOUR BUSINESS

New Directions in Telecommunications

Industry experts say small businesses comprise the fastest growing market for new telecommunications products.

lysts, is their ticket to the rapidly growing small business market. According to Ken Newbury, an industry analyst with Dataquest, Inc., the sale of 2-to-4-line telephones is expected to outpace the rest of the industry through 1990. He estimates that sales in the 2-to-4-line category will rise 6.3 percent by then, more than three times the industry average of 1.5 percent.

Centrex managers claim their companies are becoming more "small market oriented." Many report conducting more surveys and forming more focus groups to find out what small customers need. "Centrex is our flagship offering for multiline business customers," says Bell Atlantic Staff Manager Juan Veiga, "and company surveys have shown in the last three years that small businesses' first priority is cost control."

Bell Atlantic's response has been to repackage centrex so that small businesses "get as many features as possible for their money," according to Veiga. It seems to be working; Bell Atlantic's centrex service has grown 150 percent in the past year, a rate that "has exceeded all our projections," Veiga says.

Mountain Bell is focusing on 2-to-3-line businesses because they generally cannot afford expensive key equipment. Product Manager Hewitt says: "Those small companies can get additional software features on their current systems with Centron [Mountain Bell's centrex] without buying additional phones."

Companies that have already invested in key equipment can also take advantage of centrex with existing phones to increase line capacity. George Thelen, a civil engineer in northern Kentucky, says although he is very happy with his company's six lines, he would have investigated centrex as an option if he had been aware it existed. Thelen purchased an Executone telephone system that gives him the call hold, transfer and conferencing capabilities of centrex. But Hewitt notes that Thelen is still a candidate for Centron should he want to expand his system without making an additional hardware investment.

Centrex services are used primarily for voice communications. But with the advent of computers, telephone companies foresee a rising need for data transmission capabilities. Bell Atlantic has introduced a local area network ser-



PHOTO: AT&T

vice that uses existing telephone wiring in a building to connect computers. The network is controlled from central office telephone switches and, like centrex, requires no capital investment, no long-term commitment and no on-site maintenance and has no geographic limitations.

Perhaps the most ballyhooed service pursued by the phone companies is the so-called Integrated Services Digital Network. US West ISDN Project Coordinator Loren Henry says the new service is "an emerging technology as significant as the transistor, the computer chip and optical fiber."

ISDN can provide customers with high-speed simultaneous transmission of voice, data, facsimile, telemetry and slow-motion video. That sounds impressive, but what does ISDN offer ordinary businesses?

For example, says Scott Augerson, senior product manager at Siemens Information Systems, a travel agent would be able to send pictures of vacation spots over the company computer so that a client could choose a weekend retreat. Once the choice was made, the agent could send tickets by facsimile.

Before ISDN can become commonplace, however, the industry must overcome some technical and psychological roadblocks. Augerson lists two of the barriers: the absence of national technical standards and lack of user awareness and education. "We need users to become involved in ISDN and work with vendors to perfect the technology," he says.

ISDN is but one of many new service

developments predicted for the coming years. To some small business owners, the telecommunications industry is becoming more complicated and confusing with each passing month. Small companies are looking for a single entity that will make life easier for them. In response to that need, a new breed of service company has evolved in the post-divestiture era—the telecommunications agent. Some agents are independent contractors, but most are equipment manufacturers representing local telephone companies to their clients.

The arrangement could seem ideal to small business owners lacking funds for outside consultants. Some telephone company managers caution, however, that agents should be chosen carefully. Because the market has become highly competitive, some agents have overextended themselves.

Experts predict that by the turn of the century businesses will be able to send mass quantities of digital voice and data messages nationally and internationally over a fiber optic network. But they caution that to reach that point, legislators and regulators must formulate rules to encourage the industry's growth.

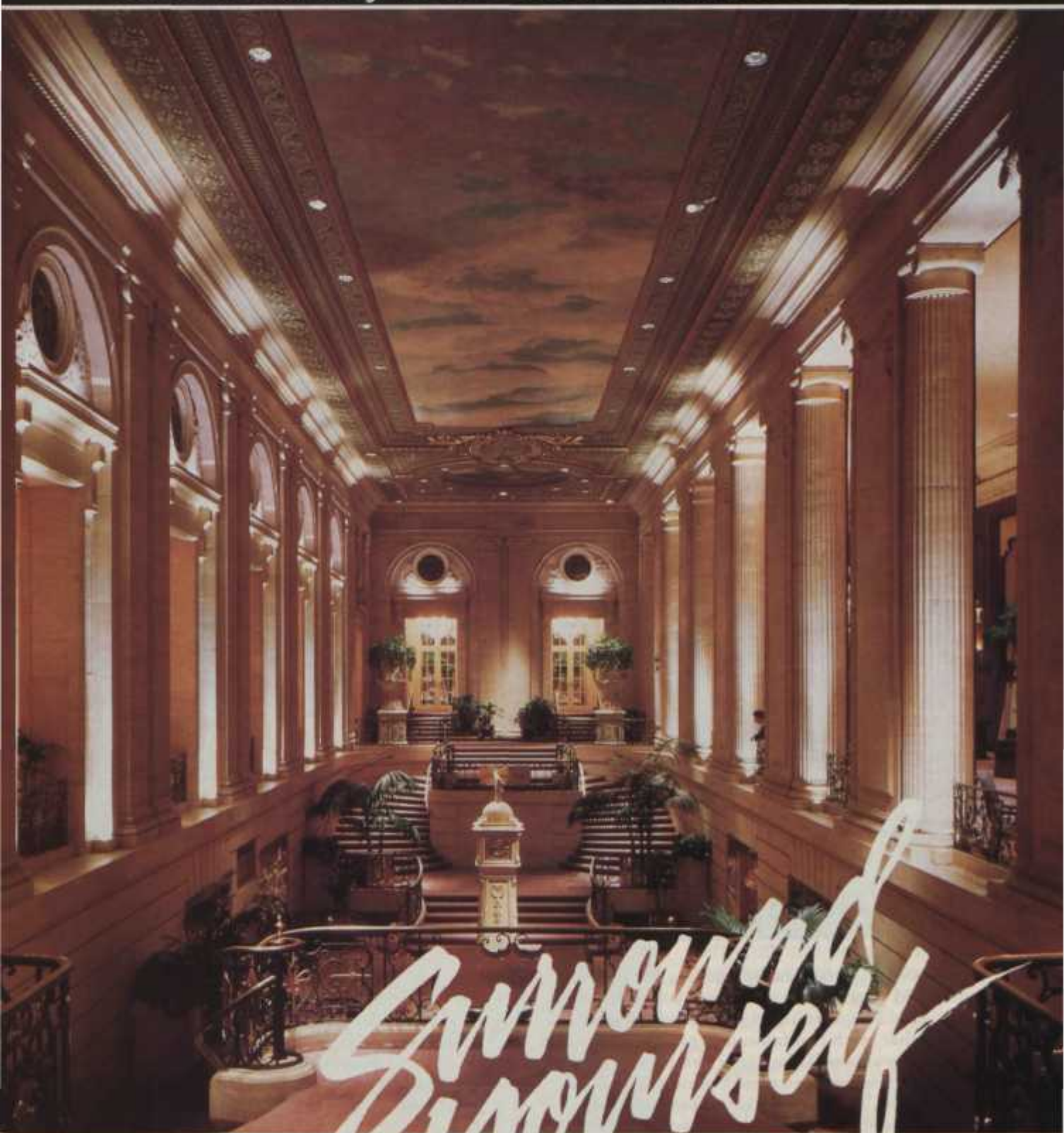
Since divestiture in 1984, the Justice Department has approved more than 100 requests allowing phone companies to diversify into fields ranging from real estate to computer software.

Most recently, the department proposed lifting nearly all post-divestiture restrictions on regional holding companies, allowing them to provide computer information services, compete in the long distance market and engage in equipment manufacturing.

This proposal, as well as a concurrent one to transfer the court's responsibilities in regulating telecommunications to the FCC, is attracting mounting opposition. Critics fear reduced competition, rising local telephone rates and a re-creation of the problems AT&T's breakup was meant to solve. Supporters of unleashing the baby Bells argue that the benefits are worth the risks: Consumers will finally get the services the regional companies—with their tremendous technological muscle—are capable of providing.

The next step is up to U.S. District Court Judge Harold Greene, who is not likely to hand down any major rulings until summer. What he decides will set the structure of the telecommunications industry for years to come. ■

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"But I don't choose an airline for its food. I choose an airline I can depend on, one that's fast and efficient, on the ground and in the air. A lot of airlines I've flown make a number of stops en route. But Aerolineas Argentinas' non-stop flights to Buenos Aires literally save me hours. And I like the fact that I can clear customs quickly in Aerolineas' own terminal, rather than being herded into the general customs area used by all the other airlines."

"I guess if I had to sum it all up, I'd say that getting to where I'm going, when I need to be there, is what's most important to me."

*John P. Gazzola
Vice President
Seven-Up International, Inc.*



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The Winning Edge

By Martha I. Finney

Both top winners in the *Nation's Business* competition to choose the Best Business Advertising of 1986 faced a common challenge: showing their ability to adapt to change.

Federal Express, first-place winner in the broadcast category for the third time, is 14 years old. *Rolling Stone* magazine, print category winner and perennial voice of hardy hipsters, turns 20 this year. The theme running through both their messages is that they have kept up with the times.

Nation's Business readers, representing the target audience for business-to-business advertising, chose what they considered the most effective messages from a selection of 13 print ads and six television commercials. Copies of the print ads and photos and dialogue of the television commercials were printed in the February issue. There are three winners in each category.

All the candidates were selected by a nominating committee consisting of representatives of 14 advertising agencies and a corporate advertising manager. These professionals were asked by *Nation's Business* to suggest four business-to-business messages—no more than one in each of the two categories could originate from the committee member's own company.

The chosen advertisements had to meet a business-to-business test, with the message in each directed specifically to an audience of potential purchasers of the product or service offered.

In a special feature article, readers were asked to choose the messages that appealed to them as members of the business community. The key question was: "Which advertisements could best make you reach for your checkbook?"

As simple as the question may be, the answer is complicated. For a business person, reaching for the company checkbook is more than just impulse buying—it is weighing factors such as price, service, dependability, long-term value and benefits to the company's future. The ad agency must remember to build in all those factors to catch the business person's eye.

Readers were also asked to indicate on the ballot their positions and the type and size of their companies, includ-



ing number of employees. From the results compiled by an independent tallying service, Action Surveys in Rockville, Md., it was evident that most of the readers participating in the poll have an active interest in their companies' finances.

Company presidents made up the largest group who sent in their ballots. Department managers were the second largest group, followed by a general category of managers. Almost half of the voters belonged to top management. More than half the respondents' companies have fewer than 100 employees, and the largest group said they belonged to the service sector.

For the second year in a row, humor was the prime ingredient of both first-place winners. The Federal Express commercial presented a scenario where a wide-eyed, disorganized gofer chose the wrong express service to send galoshes to Cleveland. It reflects the sharply increased competition in the express industry and Federal Express' high tech strategy to keep up with it.

The *Rolling Stone* ad contrasts photos labeled "Perception" and "Reality" to identify the audience to which the publication appeals. The first features a throwback to the 1960s—a long-haired, blue-jeaned hippie complete with love beads. The "Reality" photo shows a clean-cut, sport-jacketed young man representative of the young achievers of the 1980s.

Second place in the print category went to Barnett Banks of Jacksonville,

Congratulations are in order for the businesses and ad agencies responsible for this year's top business-to-business advertising campaigns.

Fla., and The Martin Agency, Inc., in Richmond. The ad, warning of the negative impact of "yes-men," showed a board chairman seated at a conference table surrounded by executives with inanely grinning "happy faces" superimposed over their own.

The third-place print award was won by 3M File Management Division and its agency, Martin/Williams Advertising, Inc., in Minneapolis. The ad asked, "What really happens to a document once it's been filed?" It was illustrated with a full-spread photo of a grave-stone strewn with dramatic red roses. The date carved on the slab indicates the date the file was lost.

Riggs National Bank of Washington won second place in the broadcast category with a commercial recalling how it "came up with \$7 million in gold" to finance the purchase of Alaska in 1868. Illustrated with compelling footage of Alaska's wilderness and wildlife, the commercial, produced by Richmond agency Siddall, Matus & Coughter, Inc., shows the breadth and scope of Riggs' vision for investments.

The third-place broadcast prize was won by IBM and its agency Lord, Geller, Federico, Einstein, Inc., in New York. The Little Tramp emerges once again to show that IBM's PC convertible computer can function equally effectively as a portable or office unit.

Before mounting its 1986 advertising campaign, Federal Express gave potential advertising agencies the difficult assignment of combining the humorous commercials the company is famous for with a new twist: its technological jump on the rest of the overnight delivery market. Federal Express felt that its history of funny commercials is wonderful, but its edge in the marketplace would be lost if it could not somehow distinguish itself from its competitors.

"In the air express industry, there's a lot of sameness going on," says Carl R. Williams, managing director of corporate marketing at Federal Express. "Everybody has hubs and airplanes. What we wanted to communicate is what makes Federal Express different from all the rest. The two major differences are extensive technological systems and personnel support. Our couri-

PRINT



PHOTO: STEVE WOOT-PICTURE GROUP

The challenge of showing advertisers how Rolling Stone magazine has changed with the times led Fallon McElligott President Patrick Fallon and his staff to creation of the first-prize winner in the print division.

FIRST PLACE
Rolling Stone
 Fallon McElligott, Inc.

Perception.	Reality.
	
	



'The Trouble With Surrounding Yourself With Yes Men Is That The Results Are Usually Negative.'

BARNETT BANKS

SECOND PLACE
Barnett Banks
 The Martin Agency, Inc.



WHAT REALLY HAPPENS TO A DOCUMENT ONCE IT'S BEEN FILED?

3M

THIRD PLACE
3M File Management Division
 Martin/Williams Advertising, Inc.

BROADCAST



Federal Express shares first-prize honors in the broadcast category with the creative team from Ally Gargano/MCA Advertising, Ltd. Left to right: Dennis Visich; Patrick Kelly; Maureen Kearns; Denis Glennon; Michael Tesch.

FIRST PLACE
Federal Express
Ally Gargano/
MCA Advertising, Ltd.



MR. RELIABLE: Clevander, did you send those galoshes to Cleveand? They didn't get there!



GUIDE: If you'd used Federal Express, you wouldn't be having this problem. . . . We have computers in our vans. . . .



and . . . we track every package and can tell you its exact status within 30 minutes or your money back.



ANNCR. (VO): Next time, send it Federal Express. Because all air express companies are not the same.

SECOND PLACE • Riggs National Bank • Siddall, Matus & Coughter, Inc.



It was a real estate deal of astounding proportions: 500,000 square miles known as Alaska. In 1866, a Russian czar



owned it and the American government wanted it. But it was Riggs Bank that came up with \$7,000,000



in gold to pay for it. Riggs leadership made the deal possible.



The same kind of leadership that makes Riggs what it is today.

THIRD PLACE • IBM PC • Lord, Geller, Federico, Einstein, Inc.



Taking your business on the road can be a cumbersome task . . .



. . . and productivity can easily fall off. Presenting the IBM PC convertible. A powerful personal computer that easily



converts to a full function portable. One you can use in a plane, a car or a meeting, and be as productive . . .



. . . as you are at the office. The IBM PC Convertible. One computer for people who really need two.



ers can now respond to a pickup call within an hour. They have computers in their vans. Technology is great, but if you don't have the human motivation in managing it, you lose its benefits. We have really strong points of differentiation. We're not just a commodity out there.

"The burden of broadcast advertising is trying to communicate strong messages that are heard through the clutter of television these days. Our biggest challenge was to weave technology with the humor," he says. "You have to be very careful and not let humor take over the message so that only the humor gets through and the message is lost. I think what you may see over the coming years is that there will still be humor, but there will also be stronger, problem-solving business messages coming through."

Combining humor and high tech is not simple, but New York agency Ally Gargano/MCA Advertising, Ltd., won the account on the strength of its presentation: simplicity.

"We had been doing humor for the last 10 years for Federal Express, and this was the first time we had to insert some technology in our commercials," says Michael Tesch, executive vice president and creative director at Ally Gargano. "We had to educate business people—and anybody that uses us—to the fact that Federal Express has very advanced technological systems in the hands of very committed people."

To that end, they chose to use an off-screen guide whose on-screen hand points to various solutions to common, if silly and exaggerated, business problems. The galoshes episode focuses on the dilemma of not knowing where a package is once an express service picks it up. The off-screen guide tells Cleaver (the gofer) and his boss, Mr. Reliable, that Federal Express equips its vans with computers, and it will track their package within 30 minutes or return their money. The final message reinforces Federal Express' main point: "All air express companies are not the same."

While Federal Express is concerned with telling the business community that it is different from other air express companies, *Rolling Stone* wants business advertisers to know that it is different from its original self. Primarily a music and entertainment magazine, *Rolling Stone* has a following of 18- to 40-year-olds, mostly men, with the college-age segment its strongest market.

But college students are not the same as they were 20 years ago when the magazine was established, and Editor and Publisher (and founder) Jann S. Wenner wants the advertising community to know that he is keeping up with the times. Minneapolis agency Fallon McElligott, Inc., was given a special task: The campaign had to convince businesses that *Rolling Stone's* audience is one they want to reach.

"When *Rolling Stone* was started, rock and roll was for the hipped-out, left-wing, free-love kids. Our readers aren't like that any more; the magazine's not like that any more either."

"Our biggest challenge was to weave technology with the humor. You have to be very careful and not let humor take over the message so that only the humor gets through and the message is lost. I think what you may see over the coming years is that there will still be humor, but there will also be stronger, problem-solving business messages coming through."

—CARL R. WILLIAMS
MANAGING DIRECTOR,
CORPORATE MARKETING
FEDERAL EXPRESS

says Patrick Fallon, president of Fallon McElligott.

"*Rolling Stone* wants to open up new doors with our advertisers," says Fallon. "Target companies include large, major blue chip firms that market cars, electronics, home furnishings, fashion, fragrances and skin lotions, vacation spots and finances."

"We use a technique in our creative approach where we say, 'The perception is this, but the reality is this.' We kept repeating those words. So we used the technique as the ad and combined humorous elements," he says.

The concept is simple. In its ad, the

first image is an illustration of a stereotypical 1960s hippie labeled "Perception." The second image is a picture of what *Rolling Stone* says is symbolic of its audience today. That is "Reality." So the campaign juxtaposed contrasts.

For another ad in the series, the agency bought an old Volkswagen bus and painted it in flower-power colors. Then it presented the image next to a well-tended Ford Mustang. For still another, the agency made chocolate brownies with green flecks (to denote hashish) and showed them next to today's status brand ice cream.

"The average income of the *Rolling Stone* reader is much higher than that of the *Esquire* reader," says Wenner. "They are a very affluent, well-educated group of people."

The illustrations alone, as eye-catching as they may be, are not necessarily enough to persuade the advertiser to buy space in *Rolling Stone*, or any magazine. The text carries the meat of the message. "The body copy is always about how much people spend on certain products," says Fallon. "These people have high disposable income."

"All through the years, *Rolling Stone* has maintained a close personal relationship with its readers. These people are so loyal. They read it virtually from cover to cover. Not only do we have statistics that cite their disposable income, but we can show that the readers use this publication."

The people at Fallon McElligott have a sentimental attachment to *Rolling Stone*. Fallon, 41, remembers his days of college dorms, *Rolling Stone* and all the details that combination calls to mind. And, yes, even hippies became parents, and their children grew up to read *Rolling Stone*. The agency's art director's parents were hippies in San Francisco. "He has vivid recollections of people playing bongo drums in trees at night," says Fallon.

"Our magazine continues to be editorially strong," says Wenner. "Now we have a tremendously smart, well-done, classic campaign that is based on wit and style."

The client company and agency for each of the first, second- and third-place winners will receive a trophy based on the scallop-shell design that has become symbolic of the *Nation's Business* Best Business Advertising Awards. The rest of the nominees will receive a certificate recognizing their participation in the competition. **■**

Rising Above Trade Rivalry

Business and government leaders from Japan and the United States agree that reform of the international trading system is essential for world prosperity.

Tokyo participants in the fourth annual "Dialogue on Japan-U.S. Trade" called for a new world trading system. They were (from left): Carl Grant and Richard L. Lesher, U.S.

Chamber of Commerce; Eishiro Saito, chairman, Keidanren; Toshikuni Yahiro, chairman, Mitsui & Company, Ltd.; Akio Morita,

chairman, Sony; Minoru Inouye, president, Bank of Tokyo, Ltd.; Yoshio Okawara, special assistant to the foreign minister.



PHOTO: MILT WITLER

The challenges and opportunities presented by efforts to revamp the international trading system were spotlighted in a recent global videoconference featuring representatives of the United States and Japan. Business and government leaders related their expectations and concerns about negotiations in Geneva designed to bring the 40-year-old General Agreement on Tariffs and Trade (GATT) into line with the present international economy.

The intercontinental videoconference, "A Nation's Business Special: Dialogue on Trade," was carried over facilities of the American Business Network (BizNet), the satellite television operation of the U.S. Chamber of Commerce, which also publishes *Nation's Business* magazine.

The dialogue was conducted live from Tokyo, Washington and Geneva. The global reach of the discussion was underscored by the number of time zones it covered. When it went on the air, the time was 7:30 p.m. in Washington, 1:30 a.m. in Geneva and 9:30 a.m. the following day in Tokyo.

The videoconference was moderated by the co-anchors of BizNet's two-hour weekday business news show, "Nation's Business Today," on the ESPN cable television network. Meryl Comer anchored discussions originating in the Chamber's studio in Washington, and Carl Grant, also Chamber group vice president for communications, was in the Okura Hotel in Tokyo.

A major theme was the need for the United States and Japan, the free world's leading trading nations, to resolve as many of their disagreements as possible so they can present a united front at the GATT talks. At the same time, several participants indicated that they expect the 90-plus GATT members to have difficulty in reaching agreement on key points.

Richard L. Lesher, president of the U.S. Chamber, set the groundwork for the videoconference by noting that principal accomplishments of the GATT talks should include protection of intellectual property rights, such as patents, trademarks, copyrights and trade secrets, including semiconductor layouts; elimination of barriers to overseas in-

vestment and trade in services; and the gradual phasing out of government involvement in agricultural trade.

None of those areas is now covered by GATT rules, but all have been deemed crucial by U.S. government officials in this country's efforts to cut its trade deficit by increasing exports.

Emphasizing the critical nature of the GATT talks, Nobuo Matsunaga, Japanese ambassador to the United States, predicted that their failure would "lead to a loss of confidence in the free trade system" and give further impetus to protectionist forces throughout the world.

The potential for disagreements at the GATT talks was signaled in a discussion of protection of intellectual property rights. Akio Morita, chairman and chief executive officer of Sony Corporation, noted that most nations issue a patent on an invention to the party who files for it, while the United States bases its determination on who invented the product.

Morita suggested that the GATT nations try to "harmonize" those and oth-

MANAGING YOUR BUSINESS

Washington participants agreed new GATT rules are needed in services and food trade, foreign investments and intellectual property. They were

(from left): Meryl Comer, BizNet moderator; Michael Smith, deputy U.S. trade representative; Edward Donley, executive committee

chairman, Air Products & Chemicals, Inc.; James Robinson III, chairman, American Express; Edmund Pratt, chairman, Pfizer, Inc.



PHOTO: T. MICHAEL KEZA

er differences on intellectual property.

But Michael B. Smith, deputy U.S. trade representative, expressed concern that "harmonize" will mean accepting the lowest common denominator of agreement, while "we are interested in the highest common denominator for the protection of intellectual property rights."

Michael A. Samuels, U.S. ambassador to the GATT negotiations, said that unauthorized use by one country of another country's intellectual property is "the equivalent of piracy, and that can't be accepted."

Samuels and Kazuo Chiba, Japan's GATT ambassador, appeared live from a United Nations television studio in Geneva. It was the first time in the four-year history of U.S. Chamber videoconferences on Japan-U.S. trade that a site other than Washington and Tokyo was included.

In a discussion of the need for the GATT to facilitate investments, Minoru Inouye, president of the Bank of Tokyo, Ltd., said it is counterproductive for developing nations to discriminate against foreign investors, as many now do.

On the subject of services trade, James Robinson III, chairman and chief executive officer of American Express Company, pointed out that trade in services last year totaled \$500 billion worldwide, one fourth of all international trade. He also observed that services account for 70 percent of the U.S. gross national product. "It's inconceivable that GATT, if it is to be relevant in



Joining the discussion from Geneva were: Michael Samuels, U.S. ambassador to the GATT, and Kazuo Chiba, Japan's GATT representative.

today's world, would not cover services," Robinson said.

Yoshio Okawara, adviser to the Japanese foreign minister, agreed. But he said that because international trade in services is a new field, an umbrella agreement covering that area should be developed prior to efforts to draft rules for categories.

Comments on agriculture trade indicated that subject will be a particularly difficult one for GATT negotiators.

Chiba said that agriculture "has special characteristics" and "cannot be treated like industrial efforts such as making transistors." Smith replied that "all items have 'special characteristics,' and you can't start differentiating among them."

Edmund T. Pratt, chairman and chief executive officer of Pfizer, Inc., said: "Everybody's going to have to make some sacrifice [if agricultural trade

problems are to be resolved], and that's what's so tough about this [issue]. Everybody is going to have to share the hurt."

In summarizing the discussions, Edward Donley, chairman of the executive committee of Air Products & Chemicals, Inc., and chairman of the U.S. Chamber, noted that there were "fierce pro-protectionist" efforts under way in the United States. Unless this country and Japan resolve their trade disputes, he said, "those forces will get out of control, and the world economy will suffer." He urged that the Japan-U.S. problems be resolved as an example to other GATT nations "on achieving cohesion."

"We do indeed face a historical moment" in the talks, Donley said.

Also participating live in the discussions from Tokyo were Toshikuni Yahiro, chairman of Matsui & Company, Ltd., and Eishiro Saito, chairman of the Keidanren, Japan's leading business organization. Mike Mansfield, U.S. ambassador to Japan, appeared on tape because he was traveling during the videoconference.

The dialogue was the culmination of six months of planning and coordination by 75 broadcast engineers and several producers and directors. Producing the event required the services of more than 10 satellite transmission companies worldwide.

The videoconference was sponsored by Northern Telecom, Arthur Andersen & Company, United Air Lines and the states of Tennessee and Alabama. ■

Making It

What happens when lawyers go into business and a businessman goes into the kitchen? The results may surprise you.

The Law Of Increasing Returns

You sense that something is different the moment you enter Herrick, Feinstein's Park Avenue law offices. The tip-off is the larger-than-life stone eagle in the waiting room. Many law firms collect art. This one salvages architectural artifacts.

The eagle once sat atop the city's Board of Education building. Down the hallway to the right is a terra-cotta fresco from the nation's first experimental subway tunnel, which was under Broadway. Close by is the bearded bust of a sailor that once crowned the Red Hook Ferry Terminal in Brooklyn. In the conference room, a gargoyle peers across the oval meeting table.

It isn't only the collection of artifacts that makes Herrick, Feinstein stand out in New York City's legal crowd. The firm doesn't just practice law; it also practices, well, business. "We are entrepreneurial lawyers for entrepreneurs," says Edward M. Abramson, the firm's managing partner.

"Most lawyers secretly harbor an envy for their clients," he continues. "They figure their clients are making fortunes while they work long hours, slaving over legal documents. We like to think that we learn from our clients. We have an appetite for risks."

Accordingly, the firm uses its own money to pursue a number of ventures, primarily in real estate. Herrick, Feinstein is half owner of a luxury hotel in Rochester, N.Y. It developed the concept for a "dockominium," a Long Island marina where individual boat slips are sold, rather than rented. The firm is studying the feasibility of constructing a Manhattan "garageominium" and selling individual spaces in the high-rise parking lot.

The firm also holds half interest in one of the nation's most active Small Business Investment Corporations, Edwards Capital Company. And it has applied to state and federal regulatory agencies for approval to open a "boutique" bank with special services catering to needs of small businesses.

One of Herrick, Feinstein's biggest

"We are entrepreneurial lawyers for entrepreneurs," says Edward M. Abramson, managing partner of Herrick, Feinstein. The firm doesn't just practice law; it also invests in a

number of business ventures—primarily real estate. Its New York office is a showcase for unusual artifacts, such as this stone eagle.



PHOTO: TED HANSEN

ventures to date involves a joint development with the University of Missouri to create an office and research park adjacent to the Kansas City campus. Abramson says the firm holds "a substantial equity share" in the project.

This entrepreneurial experience sets Herrick, Feinstein apart from traditional law offices, where profits accumulate in relatively conservative investments for partners' retirement incomes. Herrick, Feinstein manages its investments more like a venture capital company, taking risks in pursuit of greater financial reward.

Partners' experience in managing the firm's business deals enables them to serve as business advisers as well as lawyers when managing the affairs of clients, says Abramson. "There are some people who would say that providing both [legal and business advice] waters down our ability to do pure legal work," he says. But "we feel that one gives strength to the other."

Some lawyers might consider this blending of law and business an alliance fraught with ethical problems. This is not the case, says Abramson. "I

believe from our unique stance we have more control over the ethics of a [client's] situation."

The firm's approach to law and business has its rewards. There are years when returns on business ventures nearly equal billings for "pure" legal work, says Abramson. Revenues have multiplied by 10 in a decade, while the firm has grown fivefold—from eight to 40 lawyers.

Blending law and business serves more than the bottom line. It helps attract and hold good people who otherwise might be tempted to work for a larger firm where starting salaries are higher.

"We offer the promise of an earlier partnership, which in itself is an entrepreneurial incentive," says Abramson. "And we offer the added incentive of being able to participate in entrepreneurial ventures."

Over the years, those ventures have paid off handsomely. Says Abramson: "I think that some of the lawyers here have higher net worth than some at the very large firms."

—Roger Thompson

PEOPLE

His fruitless search for someplace to launch a chili business led Barry Wax (left) to develop Kitchen Privileges in

Alexandria, Va. The licensed, fully stocked commercial kitchen is for hire by the hour and meets all area and federal inspection standards.



PHOTO: T. MICHAEL KEZA

Someone's In The Kitchen With Barry

Barry Wax turned his dream of producing and marketing his own brand of chili into a truly hot commodity by giving other people a place to cook up their own dreams.

Several years ago, when Wax was investigating going into the chili business, he was unable to find an appropriate commercial kitchen he could rent—that is, one that was licensed and met inspection standards. He began to wonder: Were there other businesses that also needed to rent kitchen space?

For the next six months, he surveyed caterers and others in food services and manufacturing and indeed found businesses that were ready, willing and, in some cases, desperate, for what he thought he could offer: a licensed commercial kitchen that could be rented by the hour.

Wax, then a neighborhood economic development consultant, and four associates raised nearly \$300,000 to build and equip their Kitchen Privileges plant in Alexandria, Va. At 8,100 square feet, Kitchen Privileges is about 75 times larger than the average home kitchen and stocked with every conceivable gadget necessary to prepare almost any taste treat.

In addition to 16 commercial ovens, KP comes with such appliances as dough retarders (which inhibit dough from rising), 60-gallon soup kettles and

a blast chiller for quickly cooling cooked products. Over a dozen operations can be conducted simultaneously without anyone having to share even a shelf in the refrigerator, says Wax.

"We had zero customers—nothing—when we started," says Wax, who is chairman and co-owner.

But since opening its doors in February 1984, KP has experienced a steady rise in the number of bakers, caterers, candy makers and other clients who need a place to cook up their edibles. First year revenues were \$100,000, and KP upped that figure 50 percent in 1985.

Last June, Wax's original partners, who were never truly active in running the business, sold out to attorney Richard B. Felder. The new co-owner and company president predicts revenues of \$300,000 for the fiscal year ending in June.

Currently, an average four to five different clients a day share KP. Some return as often as five or six days a week, others work only a few hours, perhaps catering a wedding. Kitchen space is available 24 hours a day, 365 days a year—just like home, except reservations are required.

KP attracts small companies like Mary Lynn's Kitchens, which produces soups and chili, and a catering firm called We Cater. But larger operations rent kitchen facilities too. The federal Food and Nutrition Service has tested school lunch recipes at KP, and the Campbell Soup Company used KP not long ago when it was testing a new product line in the Washington area.

Kitchen Privileges can save time when an entrepreneur is trying to get a new food product to the marketplace because it has already solved the problems of meeting extensive rules and regulations.

However, it wasn't easy for Wax to get his kitchen-for-hire concept across to county, state and federal authorities, since no model for comparison existed. They put him through vigorous screening, but Wax was finally able to persuade the officials that his facility would meet all the health standards.

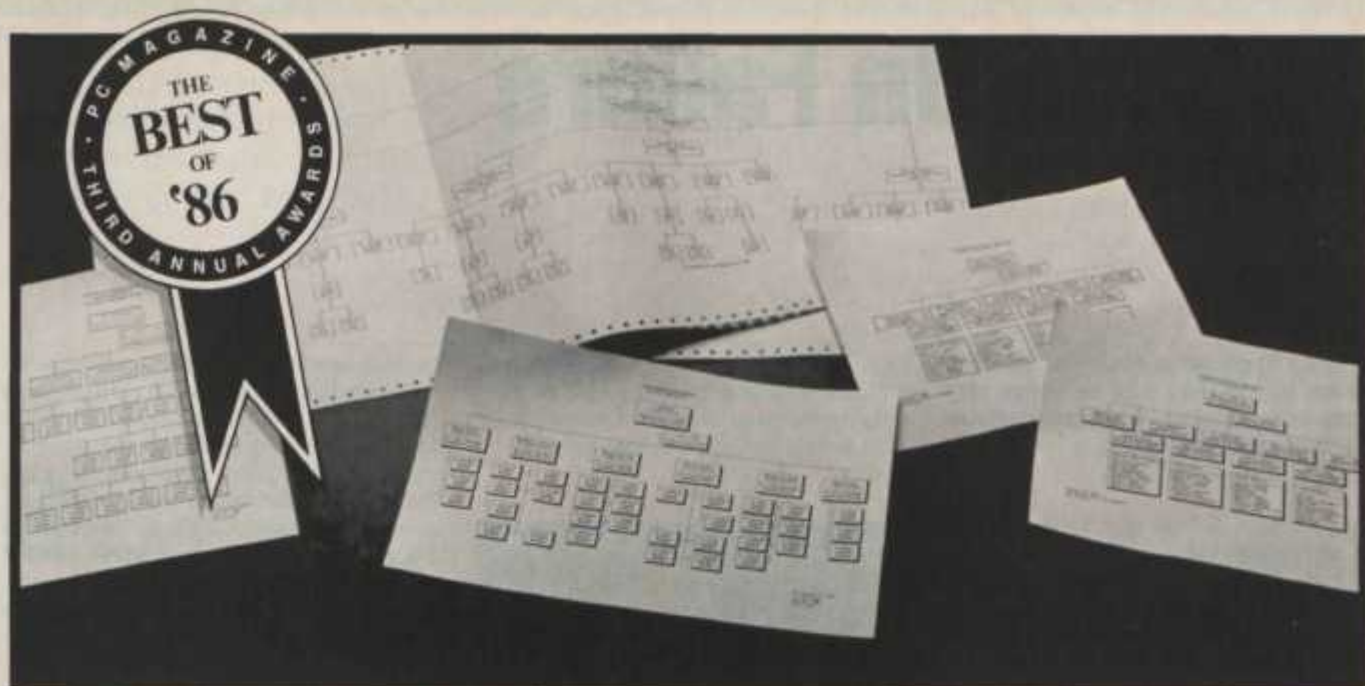
To protect the handles of faucets from germ-laden hands, KP's sinks are operated with foot pedals. The floors are steam-cleaned under pressure of 1,000 pounds per square inch. The U.S. Department of Agriculture maintains a permanent office at KP—an additional benefit to clients because foods that need USDA approval—such as meat products—can be inspected readily.

At its Fairfax County, Va., inspection last year, KP earned a perfect score.

Edward Walker of Tofoods Company, Inc., which manufactures frozen tofu for national distribution, chose KP because of its emphasis on management. "Wax takes a very paternal role," Walker says. "He receives shipments when we are not around, gives suggestions about our products and is supportive of everyone's business."

Wax feels he has created a stir. "What we have here is a new industry," he says. "It will change a lot of things in the food business. We are planning to open branches nationwide."

—Filiz Odabas-Geldiay



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Building On Failure

By Bob Gatty

Nation's Business is observing its 75th anniversary in 1987 with an anniversary issue in September and special articles like this in other issues.

I tried and failed, and I tried again and succeeded."

So reads the tombstone of a man who had a series of spectacular business failures. They included the Terraqueous Wagon, designed to travel on land or water. It sank the first time out. He failed three times to obtain a patent on another invention. He obtained one on the fourth try but lack of capital and credit, along with poor sales, again wiped him out.

But he was convinced his product had potential and tried again with his process for giving milk a long shelf life through a vacuum condensation process. Gail Borden was 56 when condensed milk brought him his first business success.

A contemporary of Borden's was also encountering failure around the midpoint of the 19th century. Though it seemed that a dry goods store in the midst of the California gold rush would be a sure bet for success, the founder watched it fail, just as he had watched two others go under. But Rowland Hussey Macy returned to the retail business fourteen years later, opening a dry goods store in New York City in 1858.

Still another small businessman of that era took it very hard when his business failed. He wrote that he felt like an outcast among his friends and business associates.

Those small business people represent a tiny sampling of the ranks of the entrepreneurs who, throughout American history, have refused to be defeated by failure. The determination of the founders to try, try again represents a common thread linking some of the largest and most famous corporations with today's small businesses struggling to survive.

The shared experiences include unexpected setbacks and the shock of encountering consumer apathy to products they thought would revolutionize the world. For example, the San Francisco earthquake and fire reduced the Bank of Italy to a plank counter on a

Determined dairyman Gail Borden put early failures behind him and persevered until his condensed milk idea blossomed into a commercial success.



PHOTO: BORDEN, INC.

dock and a total of \$80,000 in cash to cover deposits and meet loan requests. The firm survived, eventually changing its name to Bank of America.

In words many contemporary entrepreneurs might use, another turn-of-the-century inventor wrote to his wife, "I have got it, our fortune is made." But it was to be eight years before King C. Gillette brought the safety razor to market—and he sold just 51 of them in his first year.

Government regulators were not unknown in the early days of what are today's giant companies. Paul Galvin had twice been forced out of the storage-battery business, and the problems

his third company encountered included not only the Depression but opposition from state officials who held that its principal product would be a danger on the highways. But consumer demand for radios that could be installed in automobiles was so great despite the Depression that the regulators backed off and Galvin Manufacturing Corporation eventually changed its name to that of the product—Motorola.

The determination of those earlier entrepreneurs continues among their spiritual descendants, like Ron A. Berger. In 1979 Berger was hot. His four-year-old brainchild, Photo Factory, was pulling in \$40 million a year. He had 57 stores in eight states, and he was rolling.

Then, suddenly, he was broke.

His business had been leveraged with a \$1 million line of credit. Interest rates skyrocketed, and the bank called in his loan. Because Berger had personally guaranteed the loan, he was forced to declare personal bankruptcy. Overnight, Berger plummeted from a net worth of about \$5 million to zip. Job searches and depression followed. "I couldn't come to grips with it," Berger says today. "I felt like a total failure. I questioned my own worth and every business decision I'd ever made."

But today, Berger is back on top. He is chief executive officer, chairman and president of National Video, Portland, Ore., the top video franchisor in the country with sales of nearly \$6 million for the last nine months of 1986.

After his Photo Factory folded and he couldn't find a job, Berger "became convinced that success is the best revenge," he says.

In 1980, he lived for months off his wife's credit cards while he researched the video business, studied franchising and put together a business plan.

Today, National Video has 710 stores and has sold 1,361 franchises. The system does \$90 million in sales a year, Berger says, and rents more than 1 million movies a week.

Should your business fail, Berger advises, learn from it; decide what mistakes have been made. Then, try again.

What did failure teach Berger? "I learned not to get leveraged to the point where you can't control the busi-

Entrepreneurs throughout our history have often succeeded spectacularly after first tasting failure. Turning their fortunes around was, above all, a matter of try, try again.



ness," he says. "One of the main priorities must be to become debt-free. I will not borrow."

Bert Wallace, president of Bert Wallace & Associates, New Orleans, a firm that specializes in helping engineer business turnarounds, advises companies that can't pay their bills to be honest with creditors.

He learned that lesson from experience. In 1972, at age 38, Wallace was made president of Racquet Clubs of America, a new chain of indoor tennis and racquetball clubs.

"The first year we had a grand total of \$30,000 of income—and about \$500,000 of expenses. We had horrendous losses. But I made friends with vendors, lenders and construction people because I told them the truth. They eventually got paid, and my reputation was not damaged."

T. Errol Harper, who today operates the spectacularly successful Heritage Lincoln-Mercury dealership in Hackensack, N.J., had a similar experience.

Harper, black and an accountant, obtained a Pontiac dealership in Upper Darby, Pa., in 1979. He quickly was bludgeoned by high interest rates, high inflation and poor sales of what he admits was then a mediocre product. To make matters worse, he says, he was a lousy manager. He was forced to liquidate in 1982.

Harper, then 35, had invested everything he had in the business. After several fruitless months of looking for work as an accountant, he took a job as business manager for a Buick dealer in Philadelphia.

Then, Thomas Mignenelli, now general sales manager of the Lincoln-Mercury Division of Ford Motor Company, was looking for a minority dealer in the area. Mignenelli believes that people who have previously failed in business and learned from the experience are likely to become better dealers than those who have never experienced adversity. Harper says he "begged, borrowed and stole" all he could—including his father's retirement money—to invest in the dealership.

"Things have gone straight uphill ever since," he says. Gross sales were \$16.1 million last year.

Should your venture fail, advises Ron Berger of National Video, Portland, Ore., don't give up. Learn from the experience and try again.



PHOTO BRIAN DRAKE—PICTURE GROUP

Harper is careful to say that a better business climate has a lot to do with the turnaround, but he also learned much from his previous experience. "I was very slow in making decisions on personnel," he says. He had to learn to react more quickly to changes in the business climate. He also learned the need to investigate thoroughly all aspects of the business before investing.

"Just as in real estate, location is everything with a car dealership. My first dealership was in an area that had gone downhill. I thoroughly studied the demographics before I bought this one."

And one thing Harper did right first time around was preserve his reputa-

tion and his credit standing. Despite the advice of some who said he should take his money and leave his creditors, he sold everything and made amicable settlements. That helped him get started again.

Not everyone does that; nor does everyone have the perseverance that helped Calvin McCracken, founder of Calmac Manufacturing, Englewood, N.J., to turn his fortunes.

An inventor with "many failures," McCracken, now 67, holds 84 U.S. patents. His inventions include a furnace that he licensed to a major furnace manufacturer. Several thousand were produced, and there were great plans for expansion. Then seven of the furnace firm's executives were killed in a plane crash, and that also killed those plans. McCracken filed for bankruptcy.

McCracken says when he first started out in the 1940s, he worked with Theo Edison (the youngest son of Thomas) in Edison's laboratory in West Orange, N.J. He says he learned much from Edison, particularly about the value of perseverance.

After all, Edison's father—despite his enormous fame as an inventor—was mostly a failure if percentages count. Of some 1,100 inventions, only about 100 were successful.

Despite the furnace fiasco, McCracken went on to invent a new system to make ice for ice rinks. He sold 40 in two years and still sells them through distributors who handle the installation. He also has developed a system whereby commercial office buildings can shift the electric load from day to night and avoid overload problems during daylight hours.

Today, successful entrepreneur McCracken speaks before business groups about his career and about being an inventor. "You're going to win some, and you're going to lose some," he says. "Go to it."

But, as car dealer Harper adds, "If, despite your efforts, the business fails, remember it's just a business failure, nothing else. Don't let it ruin your life." ■

To order reprints of this article, see page 57.

Personal Management

To Your Health

By Norman Brown

Our ears do more than pick up office secrets. And they are subject to special ills that too often go unnoticed or untreated.



PHOTO: ROGER TULLY—MEDICOM

Treating Ear Disorders

Richard Daley is a successful lawyer for a Boston firm specializing in mergers and acquisitions. Though basically in good health, he suffered from nagging earaches that grew worse on air-plane trips.

Referred to a specialist, Daley was diagnosed as having severe barotrauma—damage to the middle ear or eustachian tube.

To correct the condition and equalize air pressure within the ear, Daley's physician punctured a tiny hole in the eardrum and removed fluid from the inner ear. The eardrum healed in two weeks, and Daley no longer suffers from earaches or, he says, "any of the noises and dizziness that used to come with them."

Ear problems are not necessarily things you have to live with.

"An earache can be treated, just like ulcers or high blood pressure," says Dr.

Harold F. Schuknecht, chief of otolaryngology—the study and treatment of disorders of the ears, nose and throat—at the Massachusetts Eye and Ear Infirmary. So can a host of other ear disorders that too often go untreated.

Use the following as a guide to what symptoms may mean and when they require more than self-treatment:

Earaches. The most common symptom of all, ear pain, or otalgia, is usually caused by infection. When fever also occurs, the infection is usually in the middle ear. Called otitis media, a middle ear infection develops when bacteria or viruses travel from the throat to the eustachian tube. Ear pain *without* fever signals an infection of the ear canal, often caused by moisture in the ear or by using an object (matchstick, paper clip) to clean it.

Prescription eardrops are necessary to clear up ear infections, says Schuknecht. "These infections do not come from outside, as some people believe, but from the nose and throat. That's why a cold or sinusitis is often accompanied by pain in the ears."

Blocked ears. You may notice that

your ears feel stuffy or plugged during or after plane flights. This is the result of swollen membranes that can't cope with the changes in air pressure. The time-honored ways to unblock them are yawning, swallowing or chewing. If none of these work, you can "pop" them by holding your nose and forcing air into your ears with your mouth closed. You may also feel better if you take a decongestant an hour before takeoff.

Itching or running. Eczema or psoriasis can be responsible. Itching also can be a symptom of an infection. When the itching is outside the ear, cortisone creams can help.

Another common cause of itching is a shortage of earwax, which causes the skin inside the ear to become inflamed and sore.

Fluid discharge can be a sign of infection or of a ruptured eardrum. See a doctor, and don't put *anything*—ear-drops, cotton swab, whatever—in the ear.

Dizziness. Dizzy spells that occur along with headache, blurred vision, numbness or weakness of any part of the body require immediate medical attention. A mild or transient ischemic attack (little stroke) could be the cause. Another possibility is Ménière's disease, an inner ear disorder that typically also involves nausea and ringing in the ears.

Tinnitus. An estimated 30 million Americans suffer from tinnitus, or ringing in the ears. The sound may be constant, or it may come and go. And it is usually more troublesome at night, when you're trying to sleep. There's no single cure, and a medical evaluation is necessary to uncover the cause.

Among the possibilities: an obstruction in the ear canal, an infection, hypoglycemia (low blood sugar) and side effects of diuretics or other drugs. If the underlying problem is identified and treated, the tinnitus should disappear.

Loud noise. How do you know when noise is simply loud and when it can damage your ears? According to the American Academy of Otolaryngology, noise is dangerous if you have to shout to be heard above it, if it hurts your ears or if it makes your ears ring. Many city and industrial sounds can cause

Norman Brown is a free-lance writer and former medical editor in Providence, R.I.



Gavin MacLeod in Martinique

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To Your Health

gradual ear damage, but even cordless telephones and stereo headsets can affect hearing.

On cordless phones, you must flip a switch to shut off the ringer so you can talk. If you don't, you can get a painful, damaging blast to the ear, says Dr. George Singleton of the University of Florida Health Center. In tests of cordless phones, he found all ringing to be in the 140 decibel range—comparable to a pistol being fired an inch from your ear.

Hearing loss. Some loss of hearing is common with aging, but you should never disregard even minimal changes.

The problem may be simple and reversible: wax accumulation, foreign object, ear infection, allergy or flu.

However, hearing can also be impaired by abnormal bone growth, polyps or nerve damage. Early diagnosis and treatment offer the best chance of cure.

For a quick hearing test, pick up your telephone.

In many parts of the country, you can get an over-the-phone evaluation sponsored by a local clinic or hospital for the cost of a local call. To obtain the number for the testing line nearest you, call 800-222-EARS. **■**

For Your Tax File

By Gerald W. Padwe, C.P.A.

Tucked away in the 1986 Superfund legislation is a provision that can make even a nonpolluting business such as the bank below liable for environmental taxes.



PHOTO: BOB KRIST—BLACK STAR

From Those Wonderful Folks Who Brought You The New W-4 . . .

You run a nonpolluting business—a bank, retail store or travel agency, for example. The closest you've ever been to toxic wastes is reading a news story about them. Is your business liable to pay to clean up the environment?

Of course not, you say. Ah, but tucked away in the 1986 Superfund leg-

islation, where it was not particularly noticed, is a provision for a new environmental tax that can apply to any corporation, regardless of its direct involvement with environmental matters.

The new tax will not apply to small businesses, and the rate is only 0.12 percent (\$12 of tax per \$10,000 of tax base). Although that might not seem so bad, consider the kicker: The tax base is not corporate taxable income but the income calculated for the new corporate alternative minimum tax (AMT). If the taxable income for AMT exceeds \$2 million—even though the company does not have to pay AMT—it is liable for the environmental tax. Those firms that

had believed the AMT was not relevant to them are now facing a new layer of complexity.

The corporate AMT was enacted in the 1986 Tax Reform Act as a response to the perception that numerous corporations report high earnings to shareholders while paying little or no federal tax. It is computed by taking the corporation's regular taxable income, making a number of adjustments to that income (largely, adding back deductions allowed for regular tax purposes) to arrive at alternative minimum taxable income (AMTI) and applying a flat 20 percent rate to the broadened income base. If that tax exceeds the regular income tax, then the larger AMT is to be paid.

Many companies will recognize that their income mix would not generate AMTI in an amount that would produce a larger minimum than regular tax, and they may not have planned to go through the mechanical complexity of determining AMTI. Now they may have to.

Assume a corporation has regular taxable income of \$3 million for calendar 1988. Its regular tax would be \$1,020,000 (34 percent of \$3 million). Assume, too, that AMTI is \$2.8 million, so that the minimum tax would be 20 percent, or \$560,000. Clearly, it has to pay the regular tax.

However, AMTI exceeds \$2 million by \$800,000. Therefore the firm will have to pay an environmental tax of 0.12 percent of \$800,000, or \$960. But the company may have to spend thousands of dollars of additional staff time to determine AMTI to calculate the \$960 tax liability.

Further, those companies particularly susceptible to AMT will undoubtedly wind up becoming regular contributors to clean air. One of the most important adjustments to regular taxable income, in arriving at AMTI, is the book profits adjustment. To the extent that financial income exceeds AMTI as otherwise determined, one half that excess is included in the minimum tax base. In the case of a bank, a significant part of its financial earnings will be represented by interest on otherwise tax-exempt bonds. One half that interest could become part of AMTI and subject the bank to the new environmental tax.

This new tax must also be included by affected corporations in estimated taxes, thus requiring quarterly AMTI computations.

The environmental tax is a sleeper. It is small in terms of dollars, but poten-

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

tially a major irritant in complexity and the time required to compute it. And—worst—it will apply to many companies that have not the slightest inkling that they have been targeted for contributions to keeping our environment clean.

Last Minute Checks

As April 15 inexorably bears down upon us, there is little left to do to affect 1986 tax liability.

Here are, however, a few points you may want to consider.

- You do have until April 15 to make a 1986 IRA contribution—and this is the last year, for many, in which that contribution will be tax deductible.

- If you are self-employed (even part time, such as being a corporate director or having your own weekend business), and you have not established

a Keogh plan, it is too late to do that and obtain a 1986 deduction. You could, however, set up and contribute to a Simplified Employee Pension Plan before April 15 and obtain a deduction on your 1986 return. See your tax adviser.

- For securities sold at a gain in the last week of December, where the trade date was in 1986 but the settlement date was in 1987, you have until you file your return to decide whether 1986 or 1987 is the better year for reporting that gain.

Again, see your tax adviser—to report the gain in 1986 will require attaching an election to your return.

- If you are executor of an estate or trustee of a trust, new rules affect the timing of tax payments. For trusts and for estates in existence two years or more, estimated taxes will have to be paid starting this year. ■

It's Your Money

By Ray Brady

Even In Good Times. It Pays To Be Cautious

When you write a financial column like this one, you can always count on getting lots of mail.

Lately, the number of questions from readers who want to know the condition of the stock market has increased.

It's no wonder people are confused. On any given day we read in the papers a report by a top economist predicting imminent recession. Still another proclaims the outlook is improving. We see Wall Streeters being led off by lawmen for breaking insider trading laws. And tax reform befuddles the best of us.

But despite a slow first quarter, the economy is going to be better than many expected. Look at the signs:

Industrial production has been inching steadily forward, and the ratio of inventories to sales is healthy. Provided the levels remain stable, you have to virtually rule out any chance of recession. Why? Because recessions start with excessive inventories that force manufacturers to lay off workers until they can whittle their unsold stocks.

True, auto sales look fairly dismal compared with the last quarter of 1986. But if you consider the unusual rush to

Despite warnings that consumers are running out of money, spending continues and will likely increase once taxpayers see how the new tax laws really affect their wallets.



PHOTO: STACY POK-LIN/PHOTO

buy cars before the change in tax laws, current sales aren't at all bad.

I can hear economists screaming, "Yes, but what about consumers? They have been tapped out for months now and have no more money to spend." And, since consumer spending controls two thirds of the U.S. economy, that sounds like a compelling argument for economic trouble ahead.

But for the past year, pundits have

been warning us about consumers running out of money. Still, spending continues, and it keeps the economy buoyed.

One reason: Homeowners have been able to take advantage of lower interest rates by refinancing their mortgages. For many, this has meant savings of \$200, \$300 or more in monthly carrying charges.

Spending levels could rise even higher this year. Once taxpayers sort out that confoundingly complicated new W-4 withholding form (or they give up and resort to the simpler new W-4A), millions will realize they are actually paying lower taxes this year and have more funds to spend.

What about foreign trade; won't that keep hurting the economy?

The foreign trade story—with all its red ink—is slowly going to fade away. The big drop in the dollar, while not bringing results overnight, is already prompting increased sales in the chemical and paper industries. Other U.S. industries will feel positive effects also.

Which brings up the question everyone is asking: What's all this do to the stock market?

There are all kinds of explanations for the market's amazing strength thus far in 1987, including the fact that there is simply so much money in circulation that it is inevitably going into stocks.

I think the market's endurance tells us the economy is stronger than most experts thought.

Still, whenever I see a market going up like this one has done most days this year, I recall the words of Walter Mintz.

A founder of the highly successful money management firm, Cumberland Associates, and now a private investor, Mintz likes to say: "Whenever you see the market roaring ahead, watch out for some unknown—some factor nobody sees—that will come along and knock it down."

One possible gremlin: Many corporate treasurers will say, "Hey, this is a great time to raise money: Interest rates are low, and stock prices high."

Watch out for a flood of stock offerings to hit the market around springtime. In the past, such offerings have had the power to pull the whole market down—not a crash, but certainly a pull-back in prices.

So, you'll find economic times to be better than expected this year, but in the stock market, it will pay to be cautious. Stand near the exit just in case prices take a tumble. ■

Ray Brady is the business correspondent for CBS News.

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Minimum Wage Of \$5.05 An Hour?

Legislation gaining support in Congress would raise the minimum wage to \$5.05 an hour. The \$1.70 increase would take effect in stages over five years. Advocates of a new boost argue that subsequent inflation has seriously eroded the purchasing power of the current minimum wage and put those earning it below the poverty level. Opponents argue that an increase would force employers, particularly smaller ones, to eliminate thousands of jobs and defer creation of thousands more. Should Congress raise the minimum wage?

2. Make Future Minimum Wage Increases Automatic?

The minimum wage bill also would make increases automatic after 1991 by annually adjusting the minimum to equal half the average nonsupervisory manufacturing wage—currently about \$8.84 an hour. Supporters say indexing would restore the minimum wage to its traditional level in relation to overall wages. Opponents maintain that indexing would have an inflationary ripple effect, pushing other wage rates upward as the minimum rises. They support increased education and training efforts to qualify low-wage earners for higher-paying jobs. Should Congress index future minimum wage increases?

3. Minimum Wage Hike's Effect On Employment?

Supporters of a higher minimum wage acknowledge that some jobs would disappear as wages rose but argue that the income benefits would outweigh the costs of job losses. Opponents point out that the 46 percent minimum wage increase phased in between 1977 and 1981 resulted in the elimination of 644,000 actual or potential jobs. They maintain that the choice facing many job seekers may not be between a higher minimum-wage job and a \$3.35 an hour job, but between \$3.35 an hour and no job at all. If Congress boosts the minimum wage, would your business eliminate and/or defer creation of entry-level jobs?

Verdicts On February Poll

Here is how readers responded to the questions in the February issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress approve sales of future government loans to cut deficits?	48%	38%	14%
Should Congress modify antitrust laws?	67%	21%	12%
Should Congress postpone cutting the top income tax rate?	26%	67%	7%



Send in your vote on the inserted postpaid card. Explanations of your views on any of these questions are also welcome as letters to the Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

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A Father Of Innovation

By Roger Thompson

In the Spartan foyer of Eugene M. Lang's midtown Manhattan office hang half a dozen framed 19th century patents for what seem to be rather mundane inventions, e.g., Edward West's "machine for cutting and heading nails," 1802, and Anthony Dottle's process for improving "the art of distilling the meal of maize, or Indian corn," 1829.

No big names or blockbuster ideas. But to Lang, president of REFAC Technology Development Corporation, no invention is ordinary. Through his eyes, these are icons of American ingenuity—the stuff that creates new industries, jobs and economic opportunity.

Invention is Lang's mission in life and the source of his considerable wealth. "I've always felt that innovation was an expression of one's own worth and purpose of being on earth," says Lang, who has helped establish over 100 companies in 45 nations.

He is perhaps better known, however, for his offer to put a class of 61 East Harlem sixth graders through college if they graduated from high school. Members of that class are now high school seniors, and only one of the original group has dropped out. The typical ghetto school dropout rate is 75 percent.

Now, nine other well-heeled sponsors have made similar pledges to classes of disadvantaged sixth graders, and the number of classes and sponsors soon may exceed 25 nationwide. Lang, 67, never expected his impromptu gesture would produce the acclaim it has. That he made the offer isn't surprising at all. He has spent a lifetime building things of value. To him, nurturing a young mind comes as naturally as promoting a new technology—something he does better than almost anyone.

Lang has never been short of profitable ideas. He launched his first business at age 8—selling checkers to kids in his neighborhood, the same East Harlem neighborhood where half a century later he would promise to put disadvantaged youths through college.

A precocious teenager, Lang enrolled at Swarthmore College at 14, completed his B.A. four years later, then signed up for a master's degree in business at Columbia University night school, which he got at age 20. To support him-

"Life's too short to spend time trying to answer every problem in advance," says Eugene Lang, who finds excessive caution runs against his grain.



PHOTO: CAROL BERSON

self, Lang designed and sold, at two for a penny, millions of two-by-three-inch cards carrying information that helped Wall Street brokers calculate a new tax—capital gains. And he started a successful monthly stock digest to boost investor interest in the Depression-era securities market.

When the war broke out, he tried to enlist, but the Army rejected him because he had flat feet. Determined to aid the war effort, Lang became an apprentice machinist in a small aircraft parts factory. Within two years, he was one of the plant owners. On the side, he enlisted service station operators, idled by gas rationing, to manufacture cutting tools and measuring gauges using equipment in their station garages.

Shortly after the war, Lang teamed up with a New Jersey company to cut production costs of a hot new consumer item: the ballpoint pen.

Every venture was successful. But Lang never held on to any of the businesses he started. "When I thought I had proven my idea, then I'd go on to the next idea," he recalls.

Says Lang: "I wasn't going to spend

Nurturing the seeds of invention—the "expression of one's own worth and purpose of being on earth"—is the life mission of Eugene M. Lang.

my life within a narrow line of activity, and I really never wanted to become very big."

He did, despite himself. But on his own terms. Lang became the international Johnny Appleseed of innovation. He made millions developing equity in small manufacturing businesses whose products he licensed for production abroad. This development business evolved as the solution to a problem.

In the late 1940s, Lang invented the Heli-Coil, a small fastening device that provides stronger screw thread connections in light metals used in airplanes and autos. He set up shop in his garage, and orders quickly mounted. In 1950, he built a factory in Connecticut. Manufacturers from around the world began to call for shipments. But Lang didn't know how to export his idea; he couldn't meet the demand.

But he knew that if he didn't supply the product abroad, someone else would, and he would lose control of his invention. Lang shopped for a company that could help him take Heli-Coil overseas but came up empty-handed. Out of desperation, he decided to do it himself.

Lang sold his interest in the Heli-Coil Corporation, but kept the foreign rights as the basis for starting Resources Facilities Corporation—shortened to REFAC. "I created REFAC specifically to help small businesses bridge the gaps of distance, language, engineering standards, usages, currency restrictions, legal systems and intellectual property rights—a whole maze of complications arising from doing business overseas," he recalls.

Great idea, but where do you start? Lang deposited \$3,000 in the bank, rented a small office on 42nd Street, hired a secretary and bought an around-the-world plane ticket. He set out with Heli-Coil and two other inventions in his "bag of tricks." When he returned three months later, "my business was established."

Was he surprised by his quick success? "Why would I be surprised if I set out with the intention of doing something and felt I could do it?"

Excessive caution is a pet peeve of Lang's. It runs against his entrepreneurial grain.

"Any enterprise always courts the

LESSONS OF LEADERSHIP

A Father Of Innovation

risk of failure," he adds. "But is the answer to do nothing or have a go at it? I've always felt that people spend too damn much time in advance trying to figure out whether something is going to work. Life's too short to spend so much time trying to answer every problem in advance."

REFAC never encountered a problem Lang couldn't handle. In fact, his timing was perfect. After the war, when Europe and Japan struggled to rebuild, the United States was in the driver's seat of technology development. "There was no shortage of small companies with ideas and interest in exploiting foreign markets," says Lang. On occasion, REFAC instead helped European and Japanese clients license their products for production in the States.

It would take an industrial engineer to fully appreciate the utility of REFAC's lifeblood: electronic, hydraulic and pneumatic instrumentation; chemical and metallurgical processes; O-ring seals and diaphragms; ultrasonic equipment and the like. But it doesn't take an expert to understand that such inventions are essential for industrial production and job creation.

REFAC's income came from royalties on the licenses negotiated on behalf of clients. The company operated then, as it does now, at its own risk and expense. No license means no cash flow. When a deal was struck, proceeds were split equally between REFAC and the client business.

Licensing and technology transfer caught on. Pretty soon, Lang was in demand in Washington, where he pioneered the concepts with the Department of Commerce in the late 1950s. He conducted seven overseas trade and investment missions for the department. "I single-handedly made the concept of licensing and technology transfer a respectable tool of business development to the point where it became just as valid an instrument of business development as exports and imports," says Lang.

The world business climate warmed considerably during the 1960s and 1970s. Jet travel and instant communications took the mystique out of doing deals abroad. Relaxed currency restrictions eased the flow of capital. And international business fairs made keeping up with new developments "as convenient as knowing what's going on at the neighborhood supermarket."

Lang didn't fight the change. He got

These East Harlem high school students have good reason to smile. Thanks to benefactor Eugene Lang (center), college tuition is guaranteed them upon graduation from high

school. To Lang, nurturing a young mind comes as naturally as promoting a new technology—something he does better than almost anyone.



one step ahead of it. When the market for technology transfer got crowded, REFAC shifted its emphasis to licensing the seeds from which new products are grown: patents.

"At that level there is a never-ending fountain of opportunity because there is an unending supply of invention and ideas," says Lang. "This has become our main area of activity."

As an extension of patent licensing, REFAC inevitably became deeply involved in fighting infringements on patents held by its clients, whether individual inventors or small companies. In fact, patent protection has pitted the tiny company (with 1986 sales of about \$10 million) toe to toe with some of the nation's industrial giants.

REFAC joined forces with inventor Gordon Gould more than a decade ago to press his claims for patents on gas discharge lasers, used in operating rooms, checkout counters and industry.

After years of legal wrangling, REFAC secured laser royalty agreements last year with Ford Motor Company and Motorola, Inc., and continues to press its legal claims for agreements with many other firms. Such agreements ultimately could mean up to \$6 million a year for REFAC in royalties.

REFAC also has negotiated licensing agreements on digital time displays with Casio Computer Company, Seiko, Armitron, Bulova, Texas Instruments and more than 30 other companies.

In August, 1985, the company filed suit in federal district court against 39 manufacturers, sellers and users of automatic bank teller machines charg-

ing patent infringement. Among those named were IBM, NCR, TRW-Fujitsu and Burroughs Corporation. The legal battle rages on. In addition, REFAC is attempting to enforce its patents on blister packaging, credit card verification systems and compact laser disk technology.

Lang says his company has become the "white knight of the disenfranchised entrepreneur." REFAC's income means fairly deep pockets to finance its crusade for the little guy. "Large corporations know that individuals or small companies don't have a million dollars to spend to sue for patent infringement," Lang says. "The fact is, the individual inventor is almost defenseless unless he is prepared to make a major investment [in legal fees]."

Lang holds about 34 percent of REFAC stock and has built a personal fortune in excess of \$50 million. But he is not out to accumulate great wealth. By his own reckoning, he has already given more than \$17 million to Swarthmore, where he is now chairman of the board. He also gave \$6 million to Manhattan's New School for Social Research to underwrite the Eugene Lang undergraduate liberal arts college. These gifts, and the pledge to help the Harlem kids attend college, flow from his conviction that his mission in life is to "fulfill a creative function"—whether it is shepherding innovation, supporting a college or nurturing young minds.

Says Lang: "I hope to give away a lot more before I die." ■

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Minimum Wage	The last federal minimum wage increase (enacted in 1977) cost 644,000 jobs through unemployment and jobs that were not created. If a legislative proposal to increase the minimum wage and index it to 50 percent of the average manufacturing wage becomes law, even more job opportunities will be lost. Minimum wage increases also would spur inflation and cause some businesses to close.	Members of the House and Senate: Oppose any increase in the federal minimum wage and also any measures that would index the minimum wage. Both an increase and indexation would decrease employment opportunities, especially for those seeking entry-level jobs, hurt consumers by inflating prices and force some business closures.
Parental Leave	Congressional committees have been considering proposals that require employers to provide 18 weeks of unpaid, job-protected leave for employees with newly born or sick children or with seriously ill dependent parents. These proposals also require 26 weeks of unpaid, job-protected leave for seriously ill employees and establish commissions to study ways to implement paid leave in the future.	Members of the House and Senate: Oppose any legislation that would require parental, elder care and disability leave. Mandated leave would prohibit employers from offering customized benefit packages to meet employee needs. Also, the proposals violate a manager's right to manage and add significantly to the costs of business.
Plant Closing	Economic-based decisions in business operations may be severely limited if Congress passes union-supported legislation requiring managers to notify and consult workers before implementing those decisions. The proposed consultations could force managers to agree to labor demands concerning plant closings, layoffs or reductions in hours regardless of the company's overall economic interest.	Members of the House and Senate: Oppose plant-closing legislation. Such legislation would destroy the abilities of company managers to operate based on fluctuations in the market system and would unjustly deprive managers of decision-making powers. It also would allow organized labor an easy channel to thwart employers' decisions through delaying tactics.
Double Breasting	Construction industry employees arbitrarily may be subjected to unions' collective bargaining agreements if Congress prohibits double breasting. Under current law, workers are not subjected to undesired union representation because separate companies with common ownership, management or control may operate either union or nonunion shops.	Members of the House and Senate: Oppose legislation that would prohibit double breasting and thereby upset construction workers' relationships with their employers. Such legislation would hinder workers' freedom to choose union or nonunion shops and hinder the operations of indirectly connected companies.
Arctic National Wildlife Refuge	The Coastal Plain of the Arctic National Wildlife Refuge (ANWR) in northeastern Alaska is believed to contain more oil and gas deposits than any other onshore U.S. area, but it is closed to exploration and development until Congress gives its authorization. Meanwhile, imports of oil and natural gas rose 37 percent from last year, making the U.S. increasingly vulnerable to unreliable foreign sources.	Members of the House and Senate: Support legislation to open the ANWR Coastal Plain for environmentally safe oil and gas exploration and development to ensure adequate domestic fuel supplies. Oppose any measures that would permanently close the region to development and exploration. America should not rely on foreign supplies for such vital resources.

Editorials

The minimum wage law already discourages creation of jobs; so why is there a proposal to raise it?

A Wage Debate With No Real Winners

It is hard to beat the federal minimum wage as an opportunity for political posturing.

Members of Congress calling for an increase in the minimum wage present themselves as big-hearted people determined to right what they see as a very great wrong. At the same time, they want a very small group—employers—to pay the bill. They then can claim that they are not asking the public to finance their largess.

Current proposals call for raising the present minimum of \$3.35 an hour to as much as \$5.05.

Drawing a Dickensian picture of families living in squalor because tightfisted employers pay them starvation wages is particularly popular in the minimum wage debate.

The impoverished family is just one of the myths that have grown around this issue. The fact is that the vast majority of workers earning the minimum wage are students working part time, young people entering the work force and family members seeking to supplement the income of the principal breadwinner.

Another myth is that those rascally employers finance any increase in the minimum wage.

The truth is, everybody pays. When a company's operating expenses go up, it can pay those added costs only by reducing profits to the survival level, then raising prices. But very little is heard about the higher prices that a higher minimum wage will bring.

And fewer would get the wage. The 46 percent increase voted by Congress in 1977 to take effect over four years cost 650,000 jobs—jobs that were eliminated or not created because the higher pay made them too costly.

There is a compelling case for allowing the market—the needs and expectations of the employer and the worker—to set appropriate wage levels.

With the unemployment rate at 6.7 percent for all workers, 17 percent for all young people and 40 percent for black youths, it makes no sense for the



PHOTO: T. MICHAEL KEZA

federal government to discourage job creation. And a higher minimum wage would be just such a deterrent.

Those who see the federal minimum wage law as a vehicle for dealing with unemployment could learn from a recent editorial in the *New York Times*, which said:

"Raise the legal minimum price of labor above the productivity of the

least skilled workers, and fewer will be hired. If a higher minimum means fewer jobs, why does it remain on the agenda of some liberals? . . . Those at greatest risk from a higher minimum would be young, poor workers, who already face formidable barriers to getting and keeping jobs."

Backers of a minimum wage increase should answer that question.

A Shared Responsibility

As this month's cover story (page 12) points out, foreign investment in the United States means jobs and other economic benefits.

There is an added dimension, however. Those investments are a strong tribute to our country itself. The vast American market, the abilities of our workers, our technology and our stable institutions are among the attractions for foreign investors.

We are aware that many Americans believe that the growth of foreign investment results from an unfair advantage. While America has an open-door policy, they point out, many foreign countries prohibit or restrict U.S. investments in their own economies.

American anxieties over foreign investment can be eased in two ways. We should realize that foreign investment here is a reflection of our high standing in the world. At the same time, foreign countries must be aware that the American sense of fair play requires them to offer the same investment opportunities the United States offers them. **B**

DELTA 88

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I'm a father,
not because I'm a
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